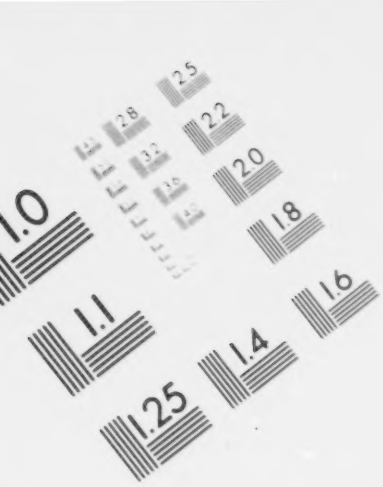

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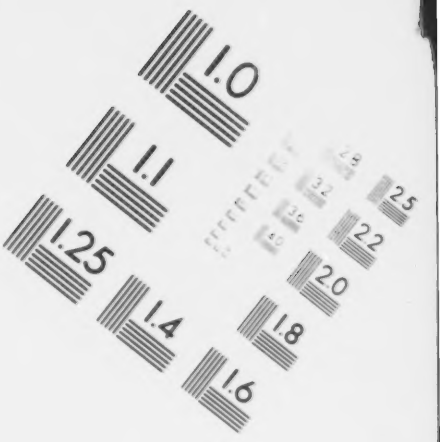

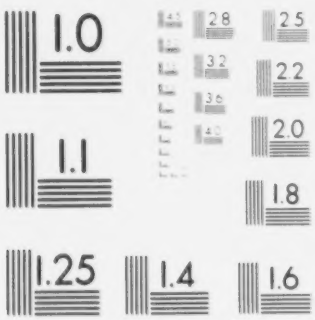

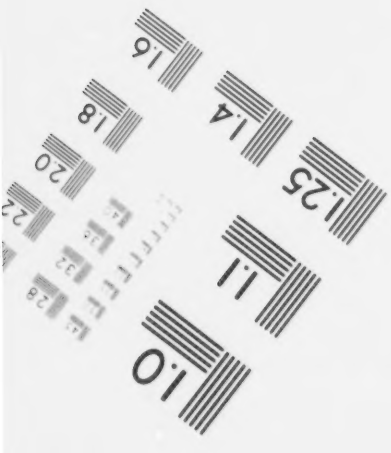

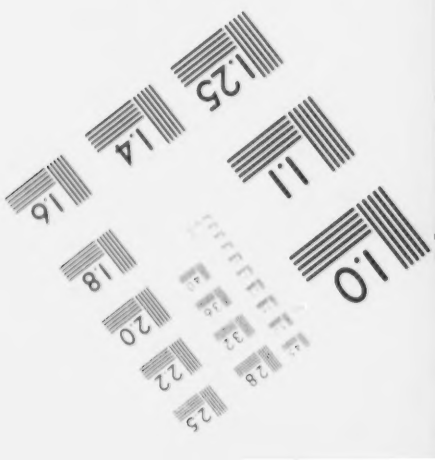

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ABSTRACT

California's many school districts vary widely in makeup but all of them share certain characteristics. This booklet gives a synopsis of how these districts manage their educational dollars. An overview of California's schools, looks at enrollment figures, profiles of students, the distribution of district revenue, and categorical aid. The booklet outlines a chronology of school finance and examines California's K-12 school finance system, describing the complicated process that pays for the public education of almost six million students. This section examines sources of revenue for schools and the distribution of revenue, and closes with a perspective on school finance. The next part describes school finance for 1997-98, clarifying the sources of school revenues; how funds are allocated; statewide basic skills tests; and highlights for funding. A short section on understanding school budgets outlines the year-long process involved in creating a budget, followed by a description of the structure of state finance, which looks at the state's financial dilemmas, the components of the state's budget, and the budget process. An overview of categorical aid for the state and a comparison of California's finances to other states are provided. A glossary of school finance terms appears at the end. (RJM)

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Clarifying Complex Education Issues

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A quality education is a fundamental right of all children and is necessary for a free society and a strong economy. California's public education system faces unprecedented challenges and needs the informed involvement of the public to sustain its viability.

EdSource is dedicated to providing impartial, clearly presented information about California's emerging public education issues, including school finance, to wide and diverse audiences. Through the dissemination of such information, EdSource hopes to stimulate dialogue, increase participation, and enable informed decision making on behalf of California's public schools.

Clarifying Complex Education Issues

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INTRODUCTION

EdSource is your resource for all you want to know about California K-12 education. This unique non-profit is the only education organization with the mission of providing unbiased information that is as easily understood by both the lay person and the professional.

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TABLE OF CONTENTS

California Schools: An Overview

A Chronology of School Finance

California's K-12 School Finance System

School Finance 1997-98

Understanding School Budgets, As Simple As 1...2...3...

The Structure of State Finance

Categorical Aid: Special Dollars for Special Purposes

How California Compares

A Glossary of School Finance Terms

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CALIFORNIA SCHOOLS
AN OVERVIEW

THE SYSTEM

A local school system is so individual that it seems unique. Each district has an identity and a method of operating that is different from any other. Even within a district each school can be so different as to seem unique. Capturing that style and working to improve it within a multitude of constraints is a primary task of school policymakers.

A district's individuality notwithstanding, it can have counterparts in California because of the immensity of the state. The 994 districts are of three types:

- 580 elementary (kindergarten through 8th grade)
- 99 high school (9th through 12th)
- 315 unified (kindergarten through 12th)

Districts range in size from several with only one school and a dozen students to the megadistrict of Los Angeles Unified which covers over 700 square miles with about 750 schools, and over 650,000 K-12 students. In 1995-96:

- 31% of the districts had under 500 students (most are elementary)
- 13% had 500 to 1,000 students
- 43% had 1,000 to 10,000 students
- 13% had 10,000 to 50,000 students (almost all unified districts)

Fewer than 1% — only eight districts — had more than 50,000 students, with San Diego and Los Angeles being the largest.

The 7,800 schools in the state also vary greatly in size. Many primary schools have 500 to 600 pupils, though some are smaller or, more rarely, larger. Middle schools (typically grades six to eight) range from 400 to 1,200 students, and many high schools have around 1,600 students. But exceptions are always the rule: Dunsmuir High School in Siskiyou County had 160 students in 1996-97, while Independence High in San Jose had 4,000 students organized into separate mini-schools, called villas.

By law, a "school year" for all California schools is at least 175 days (180 days for most districts which opted a decade ago for incentive funding for a longer school year). About three-fourths of the districts offer remedial and enrichment summer sessions or intersessions if on a year-round school calendar. Most districts start their year in early September and end by mid-June, with midwinter and spring breaks, plus the mandatory national and state holidays and optional days chosen locally. More than one million students in over 1,300 schools are on year-round schedules, with about two-thirds of those on "multi-track" schedules to maximize facility use. The most common configuration is 60-day sessions followed by 20-day breaks. Generally, a district that applies for state funding for school construction because of enrollment growth must investigate moving to a multi-track year-round schedule.

ENROLLMENT

Enrollment in the K-12 school system is huge — approaching six million children in 1997-98. The school population is sparse in the far north and in several of the mountainous areas. It becomes more dense toward the central valleys and Bay Area, and

FIGURE 1. ENROLLMENT CHANGES 1975 TO 2005

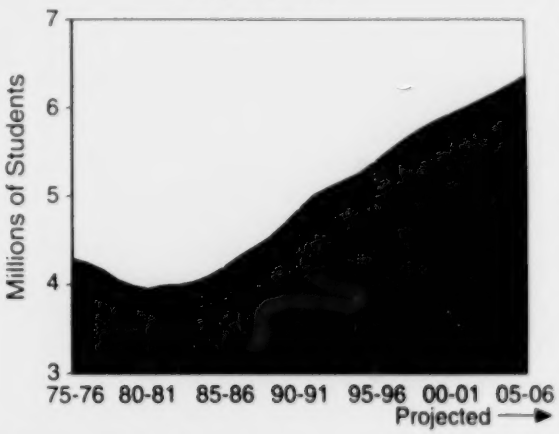

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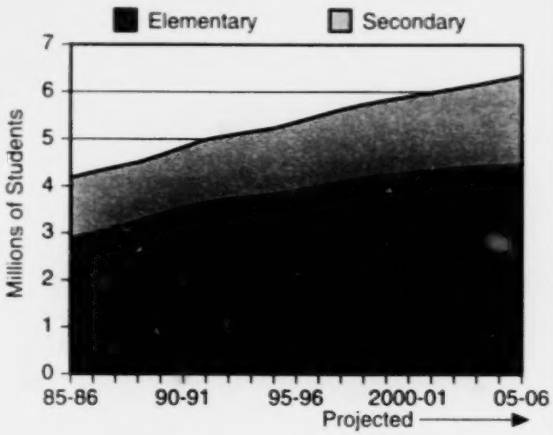
FIGURE 2. PROJECTED ENROLLMENTS



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is most heavily concentrated in the south. Over half of the students in the state are in San Diego, Orange, Los Angeles, Ventura, and San Bernardino counties. The pressure for additional classrooms means that most of the year-round schools are also there.

Many districts are now growing rapidly. In just six years, the Elk Grove Unified School District in Sacramento County, for example, grew by almost 9,000 students. From 1991 to 1997 the district added 12 new schools (one of which is entirely relocatable). Similar expansion has been occurring in Southern California and in some Sierra counties east of Sacramento.

As Figure 1 shows, twenty years ago many districts were suffering from dramatic enrollment drops that forced the closing of schools; quite a few school sites were sold. Then a sudden turnaround occurred. Well over 100,000 new students entered school each fall beginning in 1985 with numbers increasing to 200,000 in 1990. This rapid growth slowed in 1992 as the economic recession hit and interstate migration dropped but now the trend is again upward. The increase was around 150,000 new students in 1996-97.

The information in Figure 2 shows that the growth has been mostly in the lower grades. Current projections are that elementary enrollments will increase at least through 2005, which means that the upper grades, especially high school, will continue to expand for a decade or more beyond that.

THE NEW LOOK AND SOUND OF CALIFORNIA'S STUDENTS

As is true across the country, the "baby boomlet" since the late 1980s accounts for some of the upturn in California's student population. In addition, the state has been an appealing destination. The huge immigration surge, initially unexpected, continues to add thousands of young children to the school system here.

Because the immigrant families are predominantly from Mexico, Latin America, the Pacific Islands, and Asia, the look of the school population is very different now than it was just a generation ago. Figure 3 shows the changing statewide composition. To varying degrees, this growing diversity is evident in most California schools. Assuming continued immigration and high birth rates among Hispanics and Asians, the trend will be sustained for some time.

In many classrooms in the state, particularly in urban areas, English is not the children's primary language. Over a third of the kindergartners who came to school in 1995-96 had a native language other than English. Figure 4 indicates the tremendous variety of languages — and clearly points out that Spanish is the most frequently spoken other than English. Spanish was the primary language of over one million students in 1995-96.

FIGURE 3. PROJECTIONS OF K-12 STUDENTS BY ETHNIC GROUP

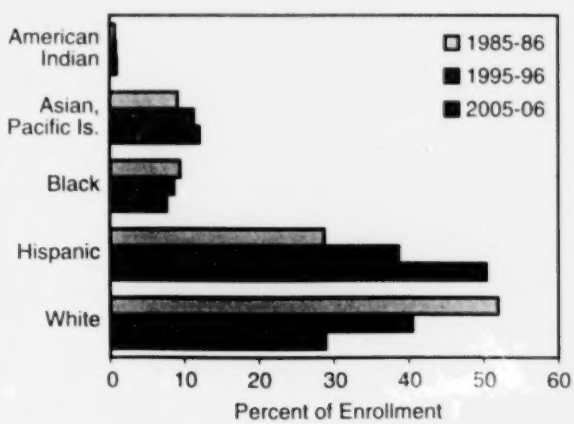

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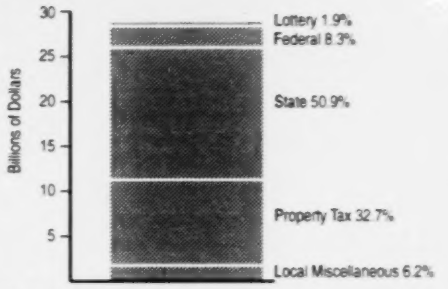
Figure 3. Total Revenues, 1994-95



Data: Office of the Legislative Analyst EdSource 12/94

islature and Governor determine these amounts annually. The process begins with the release of the proposed budget in January and concludes with the adoption of the state's budget in late June. Statewide, K-12 education depends on those decisions to provide over five-sixths of its total income for the fiscal year that starts July 1.

The property tax amount, established by the Legislature in a 1978 formula after the passage of Proposition 13, has increased slowly while the state's share has decreased slightly. The Governor and Legislature shifted more property taxes from cities and counties to education in 1992-93 and 1993-94, further reducing the state's share.

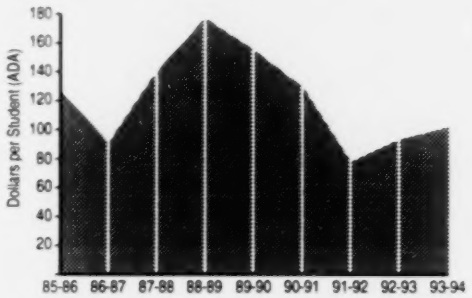
Since the 1988-89 school year, elementary and secondary education and community colleges have enjoyed a minimum funding guarantee that was built into the California Constitution when voters passed Proposition 98 in November 1988. As part of the Constitution, Proposition 98 (amended slightly by Proposition 111 in 1990) may be changed only by voters in another election, although the Legislature could suspend it for the year with a two-thirds vote.

Over 8% of school revenue comes from the federal government and about 6% from local miscellaneous sources. The latter includes such small items as food sales, money for debt repayment, and interest on reserves. Some districts seek grants or contributions, often channeled through private foundations established to solicit donations from local families and businesses.

Districts may also levy a developer fee on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities. They may ask their voters for a two-thirds approval to levy special taxes on parcels or residences. Some have won voter approval, again with a two-thirds vote, to sell general obligation bonds or to establish assessment districts for the construction of schools. Although most of this income is part of local miscellaneous revenue, some is placed in a restricted accounting fund such as the Capital Facilities Account (for developer fees).

The final revenue source is the California State Lottery. Enthusiastically approved by voters in late 1984, lottery payments have fluctuated from a low of $89 per pupil in 1986-87 to a lotto-driven high of $176 per pupil in 1988-89. Since that time, per pupil lottery revenues have fallen steadily while the number of students has grown; by the mid-1990s, the lottery contributed under 2% of the total revenues for K-12 schools.

Figure 4. Lottery Payments per Student



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No other source of revenue is currently authorized for schools. Proposition 13 eliminated the possibility of raising additional property taxes for general school support, and the courts have declared that fees may not be charged for any school-related activities except home-to-school busing.

Distribution of Revenue

The largest part of each district's revenue is for the general expenses of education — salaries, benefits, supplies, textbooks, and regular maintenance. Each district also receives some state and federal money for special programs, special costs, or categories of children with particular educational needs, called "categorical aid." This special support goes into the district's General Fund, but its expenditure is restricted to the purpose for which it is granted.

Over two-thirds of the total money for education is for general purposes, with under one-third for categorical aid. The complex allocation system is adjusted somewhat by the Legislature almost every year, with varying and sometimes unpredictable effects on individual school districts.

Revenue Limits. Each district has its own revenue limit per student, the fixed amount of general purpose revenue it may receive from state funds and local property taxes. This money forms the bulk of all districts' income. The Legislature usually grants enough money to cover the annual cost-of-living adjustments (COLAs) to revenue limits. The amount depends on whether the district is elementary, high school or unified. In recent years, however, state budget constraints have caused the appropriation for education to fall far short of the COLAs specified in the law.

A district's general purpose income depends primarily on how many students it has. The technical term is Average Daily Attendance (ADA), the average number of pupils attending or excused from school over the year. ADA multiplied by the district's revenue limit per ADA equals its total revenue limit income.

Figure 5 shows some of the ingredients of a district's revenue limit. The actual calculations in the multi-page revenue limit worksheet are extremely complicated, since they come from formulas based on legislation.

For 1993-94 the average base revenue limits were calculated to be $3,410 for unified, $3,945 for high school, and $3,215 for elementary districts. Growing districts with high revenue limits do not receive the full amount for each new student; they are limited to 105% of the statewide average for each additional student since1982-83.

Revenue limits are funded by a combination of state and local property taxes that is established by the Legislature. The exact mixture does not matter to most school districts. Their income is capped at their revenue limit, no matter how much or how little property tax income is raised within district boundaries.

If property taxes equal or exceed districts' revenue limits, they are permitted to keep all the money. Also, the state must give them $120 per pupil in basic aid that is guaranteed in the California Constitution. About 70 districts now qualify as "basic aid" districts.

Figure 5. Components of Rev. ue Limits

Base revenue limit
+ COLA (if any)
+ Meals for needy pupils
+ Summer school
+ Longer day and year
+ Other adjustments

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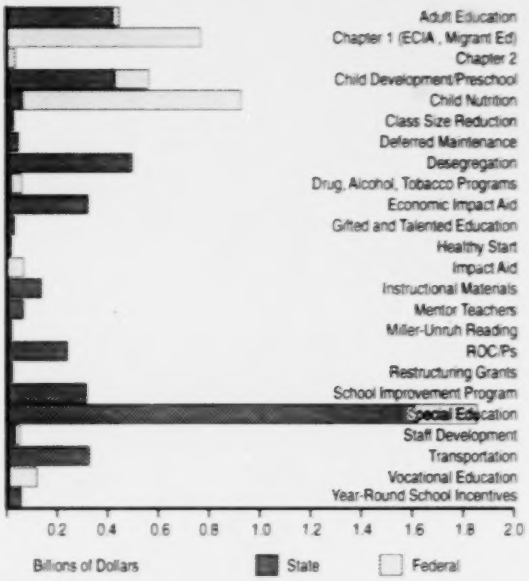
Figure 6. State & Federal Categorical Aid, 1994-95



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Categorical Aid. Revenue limit income is the measure most often used to compare how much school districts have to spend. However, all districts do receive categorical aid, in widely varying amounts. These special programs, more than 50 of them, are funded through the federal and state budgets. Usually regulations are attached to ensure that the money is spent on the children or special purpose for which it is granted. State and federal court requirements are reflected in this support, as is legislative choice.

The major federal and state categorical aid programs are displayed in Figure 6. Some allocations come automatically to school districts, others require an application. Some are based on the characteristics of the children or families in a district, such as gifted and talented, non-English speaking, migrant, low income, or handicapped. Others are for specific activities or expenses such as transportation, textbooks, or child care. Each year a large amount is allocated directly to the State Teachers' Retirement System (STRS) fund. For several years before 1993-94, "supplemental grants" were directed to equalizing some school districts' income from revenue limits plus specific categoricals. Most of the federal funds flow through the California Department of Education, which retains a percentage for administration.

In terms of dollars and the number of children served, the largest program is Special Education.

California's K-12 School Finance System

Introduction

This publication describes the very complicated system that pays for the public education of almost six million elementary and secondary school students, the salaries and wages of thousands of employees, and the construction and maintenance of about 7,500 school buildings in California.

Other relevant publications from EdSource include *Understanding School Budgets, School District and State Budget Cycle Calendar,* and *A Glossary of School Finance Terms.* EdSource publishes an update on school finance legislation each fall and offers a video about school finance as well as special kits for new and veteran school board members, policymakers, teachers, and students in administrator credential classes.

December 1994

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Clarifying Complex Education Issues

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Contents

1 **Introduction**

2 **California's Students**
Figure 1. Size of Districts, 1993-94
Figure 2. Distribution of Students by County

2 **Sources of Revenue for Schools**
Figure 3. Total Revenues, 1994-95
Figure 4. Lottery Payments per Student

3 **Distribution of Revenue**

4 **Revenue Limits**
Figure 5. Components of Revenue Limits

4 **Categorical Aid**
Figure 6. State & Federal Categorical Aid, 1994-95

5 **Propositions 98 and 111**
Figure 7. Proposition 98 Tests

5 **School Facilities**

5 **Lottery and Miscellaneous Income**

5 **The System**
Figure 8. California's School Finance System

6 **Perspective on School Finance**
Figure 9. Range of Revenue Limits, 1993-94
Figure 10. Revenues in Current & Constant Dollars
Figure 11. K-12 Enrollment Projections

8 **Conclusion**

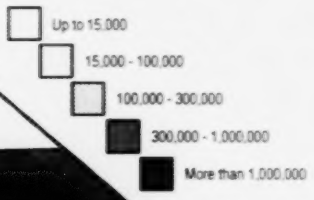
8 **About EdSource**

Figure 1. Size of Districts, 1993-94

	% of Districts	Number of Students(ADA)
Under 500 Students	32%	66,529
500 to 1,000	12%	89,047
1,000 to 15,000	48%	2,282,337
15,000 to 50,000	7%	1,676,805
Over 50,000	<1%	991,769

Data: California Department of Education EdSource 12/94

Figure 2. Distribution of Students by County



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California's Students

Almost six million children — with varying ethnic backgrounds, languages, learning styles, and individual needs — go to public schools in California. Their schools are free, as the California Constitution mandated in 1879, and the students must attend from ages six to eighteen or until they pass the tests to qualify for the equivalent of a diploma.

Most of the school districts, 590, are kindergarten through eighth grade. These are the feeder elementary districts for the 106 high school districts, grades nine through twelve. The other 305 are unified, encompassing kindergarten through twelfth grade.

Many of the 1,001 districts are very small; nearly half have fewer than 1,000 students. By striking contrast, the second largest, San Diego, has over 100,000, and Los Angeles Unified is now over 650,000 students. The map shows the number of students in each county of the state.

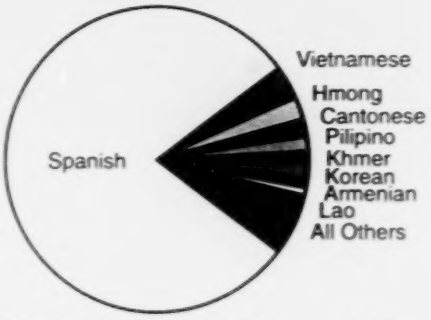
School districts' geographical and socioeconomic characteristics do not follow a neat or even describable pattern — diversity is the rule in California. But all of the districts, with the thousands of teachers, administrators, and support personnel, share a common feature: they are governed by a school finance system that is controlled in Sacramento by the Governor and Legislature.

Sources of Revenue for Schools

California's multibillion dollar public education system is supported primarily from state revenues, mostly sales and income taxes. These are supplemented with local property taxes, federal money, and miscellaneous funds from such diverse local sources as developer fees, contributions from businesses and community members, and the lottery.

The proportions for 1994-95 shown in Figure 3 are typical: about half from the state's budget and about a third from local property taxes. The Leg-

FIGURE 4. NATIVE LANGUAGES OF LIMITED ENGLISH PROFICIENT STUDENTS, 1996



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STATEWIDE CONCERNS IN THE LATE 1990s

Although Californians have not agreed on universal goals for their schools, they surely share the common objective that schools prepare all students to be literate and responsible employees and citizens.

The massive effort to reduce the size of primary grade classes beginning in 1996-97 is the current focus of the Legislature and Governor. By the end of the first year of operation, about 90% of the state's first graders were in classes of no more than 20 students, and the program will expand during the 1997-98 school year as funds become available for kindergarten through third grade.

The class size reduction law will have a long-term as well as a short-term impact on the conditions that are important for achieving the goals of education:

1) Places to put all the children Empty schools are never in the right location for new population centers, and the cost of building new classrooms is very high. For many years, growing enrollments have created an uneven pattern of need for classroom space across the state, approaching a crisis in some areas. One inevitable consequence has been larger or overcrowded classes in many schools. The formation of smaller classes in the elementary grades has put additional pressure on school facilities.

The backlog of requests for funds to renovate or build classrooms is skyrocketing with the total need through 2007 projected at $46 billion. Although California voters approved all but one state bond measure for school construction between 1982 and 1994, billions more are needed. However, in 1996 and 1997, local general obligation bond elections requiring a two-thirds vote were more successful than previously.

2) People to teach them Over 100,000 new teachers will be needed in the next five years to cover enrollment growth, smaller primary grade classes, retirements, and attrition. The publicity about the need for more teachers is encouraging more college students to consider the profession. However, while the minority student population is growing, the number of minorities in teaching is static. The demand for math and science teachers far outstrips the supply. Furthermore, the challenges presented by so many new primary grade classes, an increasingly complex student population, significant changes in curriculum, and a public desire for greater accountability all create a strong need for improved professional development for teachers.

3) Proof of success Along with the increase in funding for education — especially for smaller classes — comes great pressure for demonstrated results. Within California, the high school dropout rate has been steadily declining among most ethnic groups. Although 3.9% of all 9th through 12th graders dropped out in 1995-96 that percentage is consistently falling. However, a disproportionate number of Hispanics and blacks do not finish high school. The high school performance reports do show progress on a number of factors.

After much controversy, in 1995 California abandoned its statewide system for assessing student progress. New legislation called for a two-pronged approach. Districts receive incentive payments to test individual students with commercial tests chosen from an approved list. Secondly, a state commission is developing standards for all subject areas and grades. Once they are approved by the State Board of Education, work will begin to develop tests based on the standards to give school, district, and statewide test results.

4) Fiscal responsibility Tied to the accountability movement is the need to demonstrate the efficient and effective use of school dollars. A 1991 law tightened required financial certification reports and granted county superintendents the authority to intercede in financially troubled districts. School administrators, from site principals to business officers, need to have sharp financial skills. Boards need to consider longer-term impacts of their decisions and take seriously their responsibility to review budgets.

5) Fair and adequate funding No aspect of education in California can be isolated from money, and few topics are as explosive. Since Proposition 13 passed in 1978, primary financial control of the school finance system is in Sacramento, in the hands of the Legislature and Governor, and the primary source of funds is the state's budget.

Given the centralized nature of school funding, education scored a victory with the passage of Proposition 98 in June 1988. Its guarantee of a minimum amount of funding for K-12 education has protected schools during the past several years. Yet California remains below the national average in its financial commitment to K-12 education, and disparities in per pupil funding still exist.

THE LOCAL LEVEL

In today's climate, not all the challenges can be laid at the state's doorstep. This is a time of continuing centralization and, simultaneously, of rejuvenated efforts on the local level. These include restructuring schools, broader choice, local financing options, and stronger linkages with the community.

1) Restructuring schools to meet diverse needs California's schools are bursting with an unprecedented variety of students. Recognizing that the success in educating these students ranges from marginal to excellent, more and more school districts are discussing how to restructure education to ensure optimal opportunities for all children. They are joined by corporate and private foundations and a few programs supported by state and national legislatures.

The catch-all term "restructuring" refers to a process in which the primary actors (teachers, administrators, parents, and perhaps the community) in a school work together for change. Frequently, one element of restructuring is a move to increased school level management or site-based decision making.

No matter what the form or the way in which it is carried out, the purpose of restructuring is to change the governance and operations of a school to ensure broad participation in decision making and to strive for across-the-board improvements in student performance and achievement.

2) The continuing push toward options or choice A 1993 law mandated open enrollment within districts and another law enabled and encouraged interdistrict open enrollment as well. The impact so far has not been striking.

In 1992 the Legislature granted local groups of teachers and parents the option of forming charter schools. Freed from many of the constraints which are thought to impede effective school restructuring, over 150 charter schools are operating in California as of the 1997-98 school year.

3) More emphasis on local financing options With the state's aging population, a shift in the demographics of the families that do have children in school, and a severe need for school facilities, a centralized finance system poses more problems than ever. An avenue of increasing importance is local financing options. This is particularly true for those districts needing more classrooms or struggling with budget constraints that undermine their educational programs. Proposals to reduce the two-thirds requirement to majority vote for local bonds or parcel taxes have thus far not made it to the ballot.

4) Looking to the community for support Increasingly, school districts have looked to their surrounding communities for help. A major thrust is integrating services for children and their families, with schools as the focal point for delivering services provided by consortia of health and welfare agencies. As the demands of the workplace continue to change dynamically, school districts are also looking to the community for guidance, resources, and active participation in new, more effective school-to-career transition programs for all students. In an effort to ensure school safety, the state has adopted a policy called Zero Tolerance which mandates school expulsion for certain violent behaviors and attempts to create stronger connections between schools, local law enforcement officials, and the juvenile justice system.

PREPARING FOR THE 21ST CENTURY

California has both the capacity and the energy to lead the nation in guiding its schools into the 21st century. Educators and policymakers face important challenges, however, from fiscal and legal constraints to the difficulties inherent in educating a growing and more diverse student population. Their ability to address these important issues in thoughtful ways — based on an awareness of the facts and an understanding of the implications — will determine the success of our public school system and more importantly that of our students.

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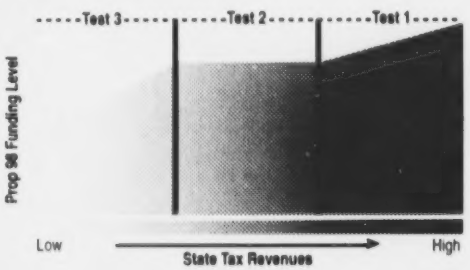
According to court decisions and federal and California law, districts are responsible for the appropriate education of each handicapped child from age 3 to 21, as well as each qualifying infant, who lives within their boundaries. State and federal allocations do not cover the cost of educating them. Districts must contribute a certain amount of general purpose funds for Special Education, and many spend much more. This is known as "encroachment."

Beginning in 1992-93, 37 of the state-funded categorical programs were lumped in a "mega-item" in the state budget. Although the regulations continue in force, districts have a bit more discretion in how these funds may be spent.

Propositions 98 and 111. These constitutional amendments guarantee a floor under the amount of state money distributed to school districts and community colleges. How the money is allocated continues to be controlled by the Governor and Legislature.

Proposition 98, as amended by Proposition 111, guarantees support in one of three ways: the greater of the previous year's amount per student, adjusted for inflation and enrollment growth; the same percent of the state's General Fund that was allocated to education in 1986-87 (adjusted for property tax shifts); or a more restricted amount in tight economic times (see Figure 7).

Figure 7. Proposition 98 Tests



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The Proposition 98 Tests

The K-14 guarantee in high revenue growth years is the larger of:

> **Test 1**—The same share of the General Fund as the base year, 1986-87 (adjusted for shift of property taxes to schools), or
> **Test 2**—The prior year's funding from state and property taxes adjusted for inflation (growth in per capita personal income) and enrollment increases.

The guarantee in low revenue growth years (when General Fund tax revenues grow more slowly than per capita personal income) is:

> **Test 3**—The same criteria as Test 2 except inflation is defined as the growth in per capita General Fund revenues plus one-half percent.

The amendment also specifies that a limited portion of excess tax revenues be added to schools' income rather than rebated to taxpayers. In return each school must prepare and publicize an annual "School Accountability Report Card" that covers at least thirteen required topics.

School Facilities. The combination of growing enrollments and aging facilities creates an enormous need for money in districts which must build or make major renovations to school buildings. Billions of dollars in approved projects await funding.

Local elections for general obligation bonds or for special tax districts require a two-thirds vote, which is very difficult to achieve. Statewide bond measures for the construction or reconstruction of schools were regularly approved prior to June 1994, but that money has been quickly used up.

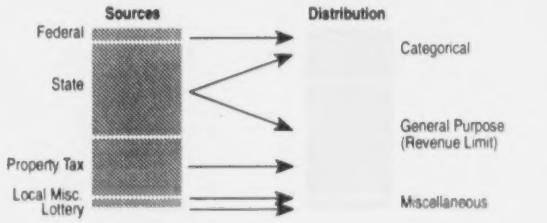
Lottery and Miscellaneous Income. The Lottery must, according to law, pay out 34% of its proceeds to all public education institutions, giving equal amounts for each kindergarten through college student.

Lottery funds are not a significant portion of school districts' income, and the amount is not guaranteed. Nonetheless, this money is very useful to districts because it can be spent on any purpose other than construction or acquisition of property.

The rest of the miscellaneous income which school districts receive is also valuable because it is under the direct control of the district. The amounts, however, are usually small.

The System. Figure 8 is a highly simplified summary of the current school finance system. Missing from it are the 58 county education offices that provide a great variety of services to districts, from financial review and assistance to extensive special education programs and juvenile court schools. Also not shown are the considerable support systems of the California Department of Education.

Figure 8. California's School Finance System



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Perspective on School Finance

The past twenty-five years have been turbulent ones for public education. Swings in the state's economy, major changes forced by ballot initiatives, shifting legislative and gubernatorial priorities, and court decisions have caused a great deal of uncertainty and, in many cases, hardship for schools.

The most striking fact is that during this time schools became completely dependent on the state government for decisions about how much and by what means they would receive money. The first step was taken in 1972 when the Legislature, faced with rapidly escalating property taxes and a legal challenge to the school finance system, decided to set a limit (in Senate Bill 90) on the amount of revenues a district could receive from taxes.

For many years previously, school boards levied taxes on the assessed value of property within the district. Once the revenue limit was instituted, local taxes (and therefore the revenue limit) could be raised only with local district voter approval. Most districts simply counted on the Legislature's annual cost-of-living increases to revenue limits.

At that time the range of revenue limits across the state was very wide. Historically, great variations had existed in both property tax rates and the property wealth within district boundaries. This meant that districts were spending very different amounts per student. Therefore, when revenue limits were set at roughly each district's 1972 spending level, they too varied quite a lot. And property tax rates continued to be unequal district to district.

The *Serrano* v. *Priest* court case, which began in 1968, eventually held that the school finance system, with its uneven tax burdens and disparate spending patterns, was unconstitutional. The courts required the Legislature to find a way to finance schools that would be more equitable for both taxpayers and students.

The response was Assembly Bill 65 (1977), a law that called for redistributing property taxes to reduce inequities. It aimed to narrow the disparities in revenue limits by granting annual increases on a sliding scale. Districts with low revenue limits received proportionately higher increases. Higher spending districts received lower increases in order to make revenue limits more nearly equal over time.

In 1984 the Superior Court decided that this practice had resulted in sufficient compliance with the *Serrano* mandate. After a series of appeals, the case was declared closed in the spring of 1989. Figure 9 shows the number of students and revenue limit ranges for elementary, high school, and unified districts. Very few students are outside the Serrano "band."

From the beginning the judge in the *Serrano* case asserted the independent importance of categorical programs. Supported by state taxes, these were deliberately excluded in any considerations about equity in local funding. During the 1970s categorical funds grew quickly, due in large part to federal civil rights requirements, court decisions, new bilingual and special education regulations, and strong special interest groups. Some districts now have only minor amounts of categorical aid, while others receive more than a third of their income from that special support.

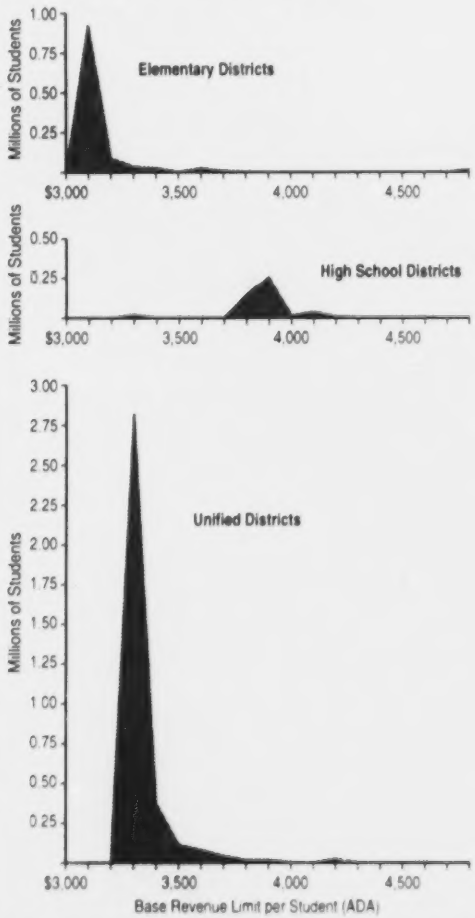
Proposition 13, which passed in June 1978, partially solved the tax rate dilemma in the *Serrano* decisions — while creating other problems for schools. By setting a maximum property tax rate of 1%, Proposition 13 eliminated the apparent inequities in tax rates. But by prohibiting voters from approving any increase in *ad valorem* property taxes above the 1% ceiling and by drastically reducing property taxes across the state, it also broke the link between local voters and local schools. (Authority for districts to levy taxes for bonded indebtedness with a two-thirds vote was reinstituted in 1986.)

Until 1978, property taxes furnished about two-thirds of education's revenues. Proposition 13 caused a nearly exact flip-flop when the Legislature bailed out school districts with state funds in Senate Bill 154 in 1978 and Assembly Bill 8 the next year. The state also took over the allocation of local property taxes among local governments at that time, a move which has never been rescinded. Education has had to look to Sacramento for its funding since then.

The dependence of education on the state's budget is problematic from another point of view: the health of the state's economy. Post-Proposition 13, California has swung from periods of accumulating large reserves to, especially recently, deficit spending. Each year, even with Proposition 98, the education community has had great concern about how much money would be allocated for revenue limits and for special programs — to say nothing of funding rapidly expanding enrollments.

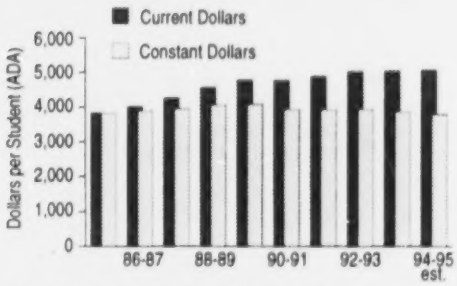
A one-time gain in funding for education came in 1983 with the passage of the comprehensive law, Senate Bill 813, which provided millions of dollars for various educational reforms. Within four years the hope generated through SB 813 was weakened by a new kind of fiscal crisis when the provisions of another constitutional amendment, Proposition 4, "the Gann Limit," were triggered for the first time.

Figure 9. Range of Revenue Limits, 1993-94



Data: California Department of Education EdSource 12/94

Figure 10. Revenues in Current & Constant Dollars



Constant dollars are calculated using the Implicit Price Deflator for State and Local Government Goods and Services with 1985-86 as the base year.

Data: Office of the Legislative Analyst EdSource 12/94

Passed easily in November 1979, the late Paul Gann's Proposition 4 limited the amount of tax money which state and local governments, including school districts, can spend. Legislation (SB 1342 of 1979) to implement the amendment defined school district Gann limits in a way that minimizes their impact.

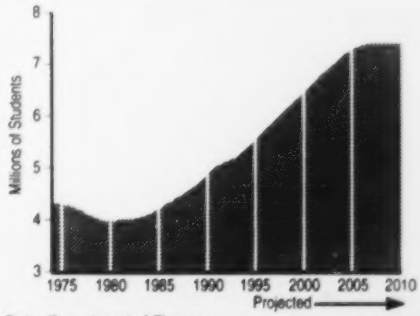
The impact on the state, however, can be considerable. Towards the end of the 1986-87 fiscal year the state realized unanticipated receipts of tax dollars and exceeded its limit, forcing a rebate of over $1 billion to taxpayers. Since then great effort has been made to adjust definitions and move money around on paper to keep the state's Gann limit above its tax revenues. In the early 1990s the problem was eased by the simple fact of massive shortfalls in revenues, and the importance of Gann limits receded.

Concerned with the need to improve funding for education, voters supported an unusual constitutional amendment in 1988. Proposition 98's guarantee of a minimum funding level for education is unique in the nation. Uneasy about some of the provisions, however, the Legislature proposed and voters approved some revisions to the amendment, Proposition 111, in 1990.

The Legislature has the authority to suspend Proposition 98 entirely by a two-thirds vote of both houses and approval of the Governor. This politically unpalatable step was taken only once, to levy a one-quarter percent sales tax for earthquake relief. Proposition 98 has a positive impact on education funding — and, by extension, a negative impact on revenues for other entities supported by the state's budget.

One thing neither the Legislature nor the Governor has any control over is the expansion in enrollments. Fueled by immigration and some high birth rates, enrollments continue to soar. This creates not only the need for more teachers and supplies, but also a crisis in classroom space. Many districts are reporting huge growth in the number of children coming to their schools.

Figure 11. K-12 Enrollment Projections



Data: Department of Finance EdSource 12/94

Conclusion

California funds school districts based on their average number of students and their designated revenue limits. Categorical aid, lottery payments, and extras which depend on local circumstances are added to revenue limit income. The effect is to create different situations in each district, despite the principles of the *Serrano* decision. That case, and the constraints of Propositions 13 and 98, have influenced the school finance system for the past three decades.

All districts depend on the condition of the state's economy and on the preferences of the Legislature and Governor. Planning and budgeting within the system can be frustrating as well as complex. Districts must juggle local priorities and collective bargaining agreements with legislative and gubernatorial politics.

The new demographics are complicating the dilemma further with enrollment increases up to 200,000 students a year. The rapidly changing composition of the student population also creates new needs: more and more students come from low-income, single-parent or ethnic minority families; by 1994 one in five students did not know English; and there are more working parents and a demand for child care. These students need classrooms, teachers and, in many cases, special help — all expensive and a further pressure on a strained school finance system.

Exacerbating the situation are the calls for increased accountability, site-based decision making, reduced dropouts, more parental choice of schools, state-of-the-art technology, and, especially, substantially better preparation of the future workforce. At the other end, the importance of providing appropriate health care and preschool education for all children is now clear. All of this inevitably affects how schools will be funded and how the scope of their purpose will be defined. The end of the twentieth century promises to be a time of great challenge for public education.

December 1994

About EdSource

EdSource is a unique source of timely, unbiased information about the critical issues facing K-12 education in California. The organization serves educators, school board members, legislators, the media, business, concerned citizens, and community groups in order to promote informed decisions and planning. EdSource services include:

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- Information Service subscription series for school districts, county offices of education, organizations, corporations, and individuals
- two annual conferences on policy issues and school finance in northern and southern California
- special information kits for school board candidates, veteran board members, policy makers, teachers, and students in administrator credential programs
- videos on school finance
- workshops and presentations
- quick responses to inquiries for information.

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REPORT

October 1997

School Finance 1997–98

EdSource

Clarifying Complex Education Issues

Full funding to reduce K–3 class sizes and more discretionary money for all schools mark the budget for elementary and secondary education in 1997–98.

How to spend a multi-billion dollar increase in money for kindergarten through twelfth grade education was one of the few happy tasks of the Legislature and Governor in the 1997-98 budget process. Given the enthusiastic reception to smaller classes, the solution was swift and sure: commit about half of it for smaller classes for all kindergarten through third grade children despite the dual challenges of a shortage of teachers and insufficient classrooms.

The other half of the increase is committed to school districts' general purpose funding. It will bring lower spending districts closer to the statewide average and also partially repay districts for underfunding during the recession years of the early 1990s. In addition, all schools receive a cost-of-living increase per pupil and funding for the still-growing student population.

Support for elementary and secondary education is more than 40% of the state's $53 billion general fund budget for 1997-98. A formula in the California constitution (Proposition 98, 1988 amended in 1990 by Proposition 111) guarantees over $30 billion in state and local funds for K-12 schools and county offices of education in 1997-98.

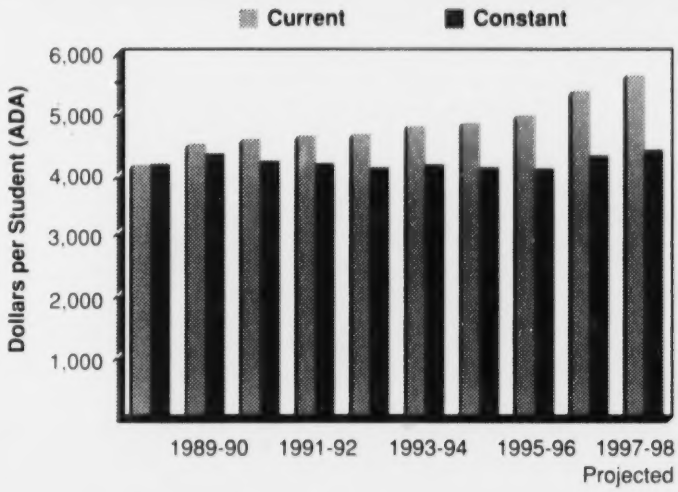
Additional money from the federal government, small miscellaneous sources, and the California Lottery brings education's revenues to a total of $36.9 billion from all sources, compared to $33.2 billion estimated for 1996-97 at this time last year. That amount was eventually adjusted upward by actual state tax revenues, and the money is part of schools' extra revenue this year.

Two years in a row of billions more for K-12 education may be enough to slightly raise California's ranking for per pupil expenditures compared to other states. But the state will still be towards the bottom of the list (41st in 1995-96), an especially unfortunate circumstance given the complex student population and the relatively high cost of living here.

The chart above gives a different perspective on current funding. Even with large increases, the per pupil support, as measured in constant dollars, is barely above the 1989-90 level.

California's schools depend on annual decisions in Sacramento that have a short and a long term impact on their dollars, decisions, and operations.

REVENUES PER STUDENT BARELY KEEP PACE WITH INFLATION



Despite a healthy funding increase projected for California's schools in 1997-98, the amount per pupil in constant dollars* has barely changed since the beginning of the decade. And the additional revenue will probably not be enough to substantially improve California's low ranking, 41st in 1995-96, in expenditures per student compared to other states.

*as measured by the change in the Implicit Price Deflator for State and Local Governments' Purchase of Goods and Services

Data: Office of the Legislative Analyst — EdSource 10/97

INSIDE THIS REPORT

Sources of School Revenues	2
How Funds are Allocated	4
General Purposes	4
Categorical Aid	6
Class Size Reduction	9
Important Issues Remain	11

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Vice President for Education, California State PTA

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Ron Prescott
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Rosaline Turnbull
President, California State PTA

Marie Wolbach
Vice President Program, California American Association of University Women

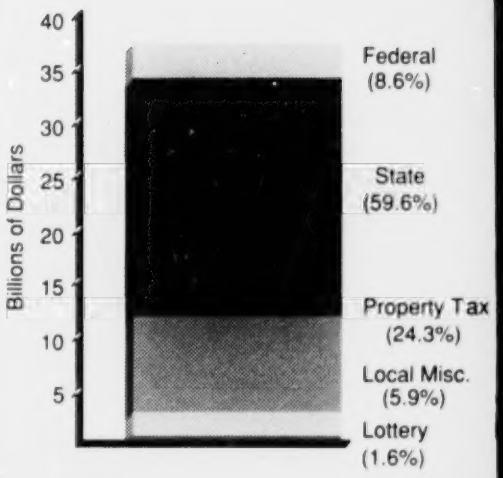
This report describes this year's new laws and their financial effect on the massive business of educating almost six million students in kindergarten through twelfth grade.

School Revenues Come from Several Sources

The total picture of elementary and secondary school revenues is shown in Figure 2. State funds, mostly from sales and personal or corporate income taxes, is projected at $22 billion, or 59.6%. The $9 billion from local property taxes is 24.3% of the total. Another 8.6% is the $3.2 billion from the federal government. Local miscellaneous revenues account for $2.2 billion, or 5.9%, and the California Lottery is expected to provide $582 million, or 1.6%.

Figure 2

TOTAL REVENUE FOR SCHOOLS HAS INCREASED



The total projected revenue from all sources for California K-12 education in 1997-98 is $36.9 billion. The state's proportion is slightly higher this year than last thanks to California's strong economy. At the same time these revenues will have to cover an estimated 130,000 new students.

Data: Office of the Legislative Analyst EdSource 10/97

State Funds and Local Property Taxes

After Proposition 13 cut property taxes in 1978, the state assumed responsibility for making up the gap between the remaining property taxes and the money due to K-12 education. The two-part source of state and local taxes forms 83.9% of schools' income for 1997-98, as Figure 2 shows.

The Federal Government

Money from the federal government has been a steady 7 to 8% of California's education revenues for many years. Most of this support is earmarked for special purposes. About $95 million from Goals 2000, the education reform legislation, is part of the 1997-98 budget.

The Lottery

A small but welcome source of revenue is from the California State Lottery. This money, intended to supplement the budget, must be used for the instructional program, not for constructing classrooms.

By law, 34% of lottery receipts must be divided equally per student among K-12 schools, community colleges, and universities. In 1996-97, the lottery provided approximately $106 per student. The increase from the previous year was partly because administrative expenses were reduced from 16 to 14.5% and partly because the popular game called "Scratchers" was reauthorized. The budget for 1997-98 projects lottery revenues at about $110 per student.

Local Miscellaneous Revenues

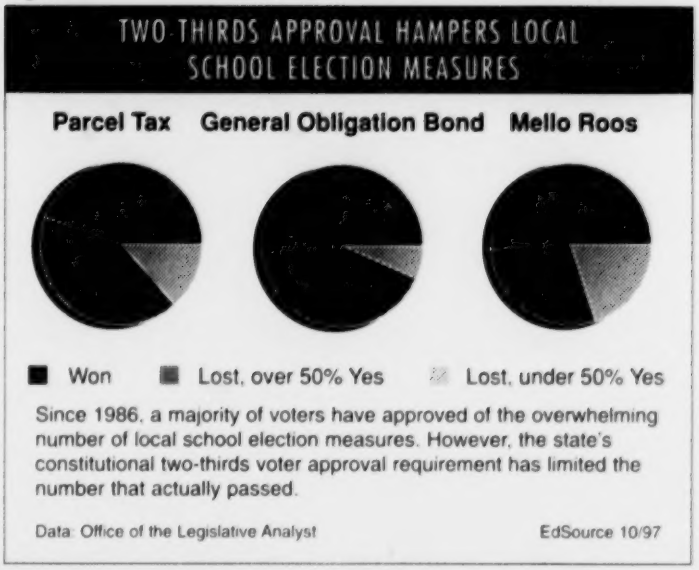
School districts receive relatively small amounts of revenue from a variety of other sources, about 5.9% statewide. These include community contributions, interest on invested income, fees paid to the district by local real estate developers and revenue from local parcel tax elections.

Local elections. Although Proposition 13 eliminated the ability of school boards or voters to increase local property taxes, boards can ask voters to approve parcel taxes to support the educational program or general obligation bonds for school construction or renovation. These elections require, according to California's constitution, a two-thirds yes vote to pass (in contrast to state bond elections, which need only a majority).

Between January 1996 and June 1997, oters approved over $5.27 billion in local onds in 78 of 115 elections, and 14 of 17 parcel ax elections passed. The success rate was geo- raphical: in the San Francisco Bay Area, 32 out f 33 elections passed; in the rest of the state ist over half passed. Four months after a efeat, Los Angeles Unified tried again — and oters approved the largest local bond amount ver, $2.4 billion. In nearby Orange County, owever, no election has been held since 1978.

The percentage breakdown in votes in three ypes of local elections since 1986 is in Figure 3. n each case, clearly most elections would have ucceeded if the threshold for success had been majority instead of two-thirds in favor.

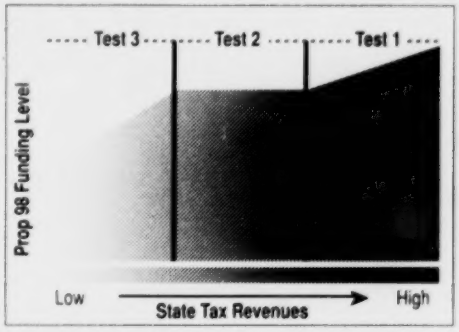
Figure 3


TWO-THIRDS APPROVAL HAMPERS LOCAL SCHOOL ELECTION MEASURES
Parcel Tax
General Obligation Bond
Mello Roos
Won
Lost, over 50% Yes
Lost, under 50% Yes
Since 1986, a majority of voters have approved of the overwhelming number of local school election measures. However, the state's constitutional two-thirds voter approval requirement has limited the number that actually passed.
Data: Office of the Legislative Analyst
EdSource 10/97

PROPOSITION 98 GUARANTEES REVENUE FOR SCHOOLS

When California voters approved Proposition 98 as an amendment to the California Constitution in 1988, they guaranteed K-14 education a minimum amount of tax revenue each year.

Like everything else in the school finance system, the calculation of the Proposition 98 guarantee (amended by Proposition 111 in 1990) has become devilishly complex. It involves recalculations for previous years, payout from the settlement of a court case, and payback from several years of a sluggish economy in addition to the projection of the 1997-98 amount. To add to the confusion, some funds — for example, the costs of the California Department of Education — are outside of Proposition 98.



One way of explaining the constitutional amendment is in the illustration. The "tests" depend on state revenues, local property taxes for K-14 education, enrollment growth, personal income, and the state's population. Test 1 applies in very high revenue years, when the Proposition 98 guarantee is at least 34.6% of the General Fund tax revenues. Test 2 is the same amount for education as the previous year plus enrollment growth and an inflation adjustment equal to the change in per capita personal income in the state. Test 3 is for much lower revenue years, when the growth is the change in state tax revenues plus 1/2%. Any underpayments when Test 3 is used will have to be restored in the future.

The past three years were in Test 2, the previous two in Test 3, according to the Legislative Analyst's Office. For 1997-98, California is expected to be in the Test 2 range, and the calculation is estimated at $29.1 billion for K-12 education. Because revenues from sales and especially income taxes grew faster than anyone expected during the winter and spring, the Proposition 98 amount is much higher than Governor Wilson projected in his January budget proposal.

The factors involved in the Proposition 98 calculations change over time, so that the guarantees for previous years must be adjusted. Recently the adjustments have been very positive. Over a billion dollars will come education's way in 1997-98 because of "settle-up" payments from 1996-97 and earlier, carryover from unspent 1996-97 money, and repayment of a "loan" that was declared illegal (*CTA v. Gould*).

The net result was that legislators had over $3.1 billion in resources that had to go to education in 1997-98. The restoration from underpayments is almost complete, and education cannot expect such a large increase next year even if the economy stays strong.

The State Decides How to Allocate the Funds

The system for sharing money among school districts and county offices of education becomes more complicated each year. It includes the general purpose support for "revenue limits" and the special purpose allocations known as "categorical aid," including special services for students with disabilities and the new effort to reduce class sizes. The budget must cover the continuing growth in school enrollment, estimated to be about 130,000 students in 1997-98.

General Purpose Revenue Limits

California school districts receive general purpose money from state and local property taxes up to their allowable revenue limit per pupil. Each district must calculate its own revenue limit each year on an increasingly long worksheet.

The revenue limit amount is technically paid "per ADA" or Average Daily Attendance, which is calculated by taking the daily student attendance and dividing it by the number of school days.

OVERVIEW OF CALIFORNIA'S SCHOOL FINANCE SYSTEM

The legislative decisions about how to fund schools rarely start from scratch. They are refinements, additions, or (infrequently) cuts to a school finance system that has been in place for over 25 years.

California pays for its schools through a combination of local, state, and federal taxes and a lottery plus, in some school districts, contributions from businesses and individuals. Nearly all the money is allocated to school districts and county offices of education according to formulas devised in Sacramento or Washington. The allocations can be for general or for specific purposes, their expenditure can be discretionary or restricted, and school districts must account for them in a uniform manner.

School boards have no independent authority to raise taxes, and voters in a school district rarely are involved in how much their districts have to spend. Further, many school expenditures are fixed because of contracts with employees or regulations in the state's lengthy Education and Government Codes.

Within these constraints each school district sets priorities and makes decisions that profoundly affect their students' education.

Some districts do not receive full funding for all their students. About 160 of the 994 school districts in California have revenue limits that are 105% above the average for their type of district. Their revenue limit is capped at that 105% level for the students they have gained since 1982-83.

Cost-of-living adjustments. Current law grants cost-of-living adjustments (COLAs) to revenue limits, based on the change in the Implicit Price Deflator for State and Local Governments' Purchases of Goods and Services. The COLA is a flat amount per student, depending on the type of district. Early estimates are that the 2.65% COLA will mean $89 per student for elementary districts (K through 8), $107 for high school (9 through 12), and $93 for unified (K-12) after a "deficit factor" is applied.

As Figure 4 shows, the money appropriated for revenue limits has not matched the statutory amount since 1989-90. The gap determines what is called the deficit factor for each district's revenue limit entitlement. The 1997-98 deficit factor is 8.7% for districts and 10.3% for county offices of education.

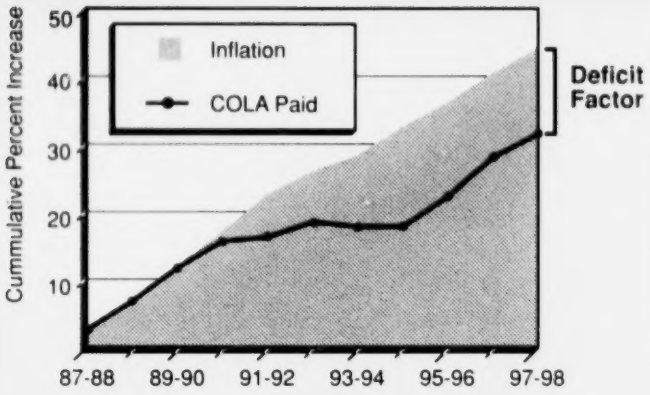
Extra money for general purposes. In addition to the COLA, some districts will receive "equalization aid," and every district will receive a little more money through a reduced deficit factor.

Since the per student COLAs are the same in districts of the same type, they do nothing to change the discrepancies among districts' revenue limits. For about a decade the Legislature has periodically allocated additional money to districts spending below the statewide average for their type. The 1997-98 budget includes $278 million in this equalization aid and makes it a part of the base, adjusting for the COLA and for enrollment growth. The budget also has $278 million to reduce the deficit factor somewhat.

Eliminating the cumulative deficit could take as much as $2 billion. Schools consider this to be money that is owed to them, and last year the Legislature agreed. The 1996–97 budget deal required that any unexpected growth in the money due to schools because of Proposition 98

igure 4

SCHOOL DISTRICT REVENUE LIMIT FUNDING LAGS INFLATION



The deficit factor is the difference between the amount of money allocated for revenue limit Cost of Living Adjustments (COLAs) and inflation as defined by law.* During the recession of the early 1990s, the Governor and Legislature budgeted an inadequate amount of money to pay for revenue limits and inflation, thus creating a deficit factor. This year, funding in the state budget reduces the deficit factor, but much more money would be required to close the gap.

*Inflation is measured by the increase in the Implicit Price Deflator for State and Local Governments' Purchase of Goods and Services.

Data: School Services of California, Inc. EdSource 10/97

e split equally between deficit reduction and qualization of revenue limits (for school districts ut not county offices) in 1997-98. The Legisla- ure and Governor honored this commitment.

The total amount turns out to be over half a illion dollars. Although it is technically a part f the 1996-97 state budget, the actual cash will ot be paid until February 1998 when the roposition 98 calculation for 1996-97 is final.

The consequence is expected to be, on the verage, 2.8% for districts statewide. The in- rease will range from a very small amount in ose districts with higher revenue limits to ver 4% in those that qualify for equalization d in addition to deficit reduction.

Trailer legislation to the 1997-98 Budget Act equires districts to publicly discuss by March 1 ow they will use the money.

An exception: basic aid. Since the pas- ge of Proposition 13 in 1978, funding decisions have been centralized in Sacramento. Local property taxes are collected by each county, but the distribution to schools is controlled by legislative formulas. Almost all school districts' revenue limit income is a mixture of state and local taxes, and the proportions usually do not make any difference in the total amount.

The exception is in the 56 districts where property tax income exceeds the total revenue limit. In this case, they may keep the extra money, estimated by the California Department of Education at $70 million statewide in 1995-96. The Legislature has never chosen to capture these funds for other education uses.

In addition, these "basic aid" districts receive $120 per student in state aid that is mandated in the California Constitution. The Department of Education estimates the state made a total of $11.2 million basic aid payments in 1995-96.

THE RATIONALE FOR REVENUE LIMITS

Twenty-five years ago, in 1972, property taxes in California were skyrocketing, property tax rates varied greatly around the state, and school districts with greater property wealth were reaping much higher revenues than those with a lower property tax base. The California Legislature, prodded by the *Serrano* v. *Priest* lawsuit and the threat of a taxpayer revolt, decided to limit the income each school district could receive from property taxes. The "revenue limit" was set at roughly the amount of general purpose income each district was then receiving from state and local sources.

The concept still exists, although the amounts are higher by now. Each district's revenue limit has been adjusted almost every year for inflation (and other factors). Until 1983 the lowest spending districts were granted larger increases so that revenue limits would become more nearly equal among districts of the same type. Both of these mechanisms — a COLA and equalization aid — are in the 1997-98 budget.

Serrano Compliance

The equalization aid package will cover about 90% of the state's students, according to School Services of California. Over 98% of the state's students will be in districts with revenue limits no more than $321 apart, using 1996–97 data. This band satisfies the Serrano-Priest requirement for nearly equal revenue limits across the state by size and type of district.

Because of changes in property tax revenues and enrollments, a district can slide in or out of basic aid status from one year to another.

Categorical Aid for Restricted Uses

About one-third of state funding in the 1997-98 education budget is earmarked for particular, as opposed to general, purposes, including class size reduction. Categorical aid is the catch-all term for this targeted revenue.

Over 50 categorical programs are supported by the state and the federal government. Figure 5 shows the largest ones.

Although often driven by laws or court decisions, categorical aid can also reflect a legislative or gubernatorial priority. The money can be given as an across-the-board grant, as reimbursement for a service offered to students, or as an incentive to encourage a particular activity. Most categorical aid is accompanied by some (or many) conditions about how it may be used; much of it carries reporting requirements and, sometimes, regulations about who should be involved in the decisions about its use.

How much categorical aid each district receives depends heavily on the nature of its student population and sometimes on its success in writing grant applications. Districts with many students who need to learn English, with low-income families, or with disproportionately low-achieving students will qualify for much more categorical aid. The proportion of a district's budget that comes from categorical aid can be very small, or it can approach 40%.

The formulas for determining the exact distribution of the funds are not always rational and not necessarily based on the latest data. As a consequence, California's package of categorical aid is subject to ongoing suggestions for reform. The only recommendation to make it through the legislative process in recent years is reform of the system for funding Special Education.

Special Education. The way that California provides services to children with educational, physical, or mental disabilities is so complex that it is a finance system all its own.

Special Education has long been the sing largest categorical program funded by the st The amount is $1.9 billion in 1997-98, for nea 600,000 students. It is supplemented by $329 million in federal aid.

California's budget grants Special Education a COLA of 2.65% for 1997-98 plus 2.51 for enrollment growth (expected to cover abo half of the eligible growth). New funding includes over $59 million for Special Education deficit reduction (the deficit factor in this cas estimated at 13%), and $76.7 million for refor of a system that is described as inequitable a inflexible.

Special Education funding has historicall been arranged by type of service, not per student, and the services are organized through Special Education Local Plan Areas (SELPAs) The system is so convoluted that reimbursem sometimes has little to do with the actual cos and even the same service is differentially fu ed among SELPAs.

Reform of the Special Education finance system passed in the final hours of this year' legislative session. The new law grants equity adjustments in 1997-98 and completely restru tures the financing in 1998-99. The new syste will distribute funds to SELPAs based on the total student population, not just the qualifyi Special Education students. The issues of students with high cost disabilities and districts with high concentrations of Special Educatio students will be studied and presumably addressed next year.

The system will still include a contributi of local general fund money as well as state a federal categorical funds. Costs of the require services often exceed the available amount, a the district must cover the difference. This is called "encroachment."

About 55% of the 600,000 Special Educat students have learning disabilities (dyslexia, example), and 25% have speech impairments The other 20% includes children with physica or emotional disabilities. The various services offered to Special Education students range from short-term, on-site extra help to full-tim placement in a private facility.

Figure 5

STATE AND FEDERAL EDUCATION MONEY EARMARKED FOR SPECIAL PURPOSES

State Programs	1996-97 Millions	1997-98 Millions
Special Education	$1,860.166	$2,086.718
Class Size Reduction (Primary Grades)	771.000	1,488.535
Child Development, Preschool	516.927	621.070
Desegregation* (Court Ordered $471.709, Voluntary $132.950)	545.503	604.659
Adult Education & CalWORKS	451.722	515.070
Transportation (including Special Education)*	476.317	499.008
EIA (Economic Impact Aid)*	366.320	385.389
SIP (School Improvement Program)*	360.403	379.164
ROC/P (Regional Occupational Centers/Programs)	271.694	292.587
Instructional Materials*	157.141	165.321
Summer School		164.939
Deferred Maintenance	91.100	135.000
Digital High School		100.000
Goals 2000		81.900
Mentor Teacher*	73.620	77.452
Child Nutrition*	69.912	72.621
Year-Round School Incentives*	62.809	69.799
Pupil Testing	25.153	59.870
Educational Technology*	50.288	54.234
GATE (Gifted and Talented Education)*	50.747	53.388
Staff Development Day Buyout		50.000
Healthy Start	49.000	49.000
Tobacco Use Prevention Program	42.000	34.437
Class Size Reduction (Grades 9-12)*	32.337	34.020
Miller-Unruh Reading*	29.062	30.575
Community Day Schools	52.593	30.000
Child Care Facilities		25.000
Technology Literacy Challenge Grant		19.624
School Dev. Plans & Res. Cons.*	17.417	18.323

State Programs	1996-97 Millions	1997-98 Millions
Dropout Prevention Program*	17.293	18.193
Beginning Teacher*	7.524	17.916
Standardized Account Code	4.000	16.969
Tenth Grade Counseling*	13.329	14.022
Partnership Academies*	8.016	11.434
Apprentice Program	8.256	8.256
Opportunity Programs*	7.376	7.759
Vocational Education & Organizations	8.393	7.584
Demonstration Programs Reading/Math*	5.398	5.679
California School Information Services		5.664
Indian Education Programs/Centers*	3.102	5.244
School/Law Enforcement	4.481	4.481
Administrator Training*	5.707	4.329
Specialized Secondary School Programs*	4.004	4.213
Agriculture Vocational Education*	3.592	3.779
Bus Replacement*	3.547	3.731
County Fiscal Oversight	3.250	3.630
High Risk Youth & Public Safety		3.600
Gang Risk Intervention	3.000	3.000
Low Performing Schools		3.000

Plus other programs under $3 million

*Programs included in the Mega-item

Major Federal Programs	1996-97 Millions	1997-98 Millions
Child Nutrition	$987.460	$1,182.766
Title I [formerly Chapter 1] (ECIA, $836.680, Migrant Education, $107.448)	881.412	944.128
Child Development	127.358	353.410
Special Education	255.016	329.040
Vocational Education	110.049	119.769
Drug Free Schools	36.844	43.721
Adult Education	25.681	38.317
Emergency Immigrant Education	18.209	32.576
Title VI [formerly Chapter 2]	27.380	30.811
Title II ESEA (Professional Development)	24.226	27.016

To Earmark or Not

Whether to give local school districts discretion over the use of their funds or to earmark some for particular purposes is an ongoing controversy. Historically, California has recognized different student needs and supported them through the school finance system. Even the courts in the Serrano case acknowledged that equal treatment of students sometimes demands unequal amounts of money. Citing the extra costs of categorical programs that can eat into general purpose income, detractors prefer to let school districts decide independently what their students need the most.

Mega-item. Several years ago the Democratic Legislature combined over 30 categorical programs into one line item in the budget, thus limiting the Republican Governor's ability to veto individual programs. In turn, Republicans supported more flexibility in how districts may spend the money within the single line item. The mega-item is now a "tradition."

The appropriation is about $2.4 billion for 1997-98, a 5% increase. Although both a COLA and enrollment growth are funded, more students in some of these programs means that the amount per student is actually lower than in 1996-97.

The starred programs in Figure 5 are part of the mega-item. A district may transfer up to 15% of the money in a mega-item program to one or more others, up to a maximum 20% increase for any single program. Funds may also go to Healthy Start or Conflict Resolution, both outside the mega-item, but not to class size reduction.

Deferred maintenance. Lack of funds typically forces school districts to place low priority on maintaining their school sites. Existing law encourages districts to address the condition of their buildings by providing matching state funds when districts set aside up to one-half of one percent of their budget for deferred maintenance.

Recent appropriations have fallen far short of what was needed for the match. For 1997-98, $100 million will be directed to this purpose. When $35 million in excess bond repayments is added, the state can meet an estimated 88% of the match. The cumulative backlog of need is well over $2.6 billion, according to the Legislative Analyst's Office.

Technology. As part of a four-year $500 million proposal, $100 million is available in 1997-98 for what Governor Wilson calls the "Digital High School." It is an effort to provide hundreds of thousands of computers to every high school in California; about 200 schools can participate this first year.

Districts with more than 200 students are divided into four groups; districts with fewer than 200 students are in one group; and the sixth group contains county offices of education. Randomly selected winners in each group will receive $300 per student for installation costs and $45 per student for ongoing technology support and staff training. The program must have the support of a majority of each participating high school faculty.

The revenue must be matched by the district. Although existing or donated computers with an expected life of five years count toward the match, considerable local funding might still be needed. Parts and supplies to repair and upgrade donated computers will be supported by $4.7 million from federal Goals 2000 funds.

Early childhood and health. Child Development/Preschool costs over half a billion dollars annually. These programs, supported by Proposition 98 funds, are traditionally included in the budget for K-12 education. The federal government also contributes almost a billion dollars for Child Nutrition in this state.

A project initiated by Governor Wilson, Healthy Start, will receive nearly $50 million in 1997-98. Other health-related allocations are $34.4 million for Tobacco Use and Prevention and more than $43 million for Safe and Drug Free Schools.

A $25 million loan program will provide portable classrooms for child care to replace the rooms lost to class size reduction. Child Care will get $87 million, linked with a new CalWORKS program that is part of the state's welfare reform package.

School year. A new categorical program will provide $50 million — incentive payments of about $220 per teacher — to "buy back" one staff development day for the student calendar. Currently, the school year of 180 days may include up to eight days with no classes so teachers may have inservice. The new program provides a staff development day that will not take time away from classes; it must be scheduled at the beginning or end of the school year or a regular break, starting in 1998–99. Also beginning next school year, districts must notify parents of the dates of "minimum" days at least 30 days beforehand.

Financial accountability. As part of its continuing effort to improve financial management and accountability in school districts and county offices of education, the California Department of Education is establishing a Standardized Account Code Structure (SACS). The 1997-98 budget has $17 million for completing initial development and testing in four consortia that include half of the school districts and nearly 30% of the students. The experiences will become models for the phase-in of all districts and county offices, which must start the conversion by June 1999.

The new system is intended to yield useful information about the budget processes and priorities in districts and, often, schools. It will provide comparable statewide information and accurate data for state and federal reports as well as for answers to questions.

Federal aid. The federal government also supports special programs in California. The largest ones, listed in Figure 5, are Child Nutrition and Title 1 for low-income, low-achieving children. These programs all have requirements for the use of the money. A notable exception is the $95 million for Goals 2000 that states may spend at their discretion.

More Funds for Class Size Reduction

The more than one billion dollars earmarked for deficit reduction and equalization aid is one big piece of the 1997-98 education budget. Another is even bigger — nearly $1.5 billion to support class sizes of no more than 20 students per teacher in kindergarten through third grade.

Over 50% of the state's 1.9 million K-3 students moved into these smaller classes in 1996-97. Related problems notwithstanding, the program was so popular among so many people that neither the Legislature nor the Governor hesitated to commit enough resources to cover potentially the entire K-3 group. The increased incentive payment is $800 for each student in a small class for the entire school day (or $400 for half a day). The new amount more nearly matches the cost of the program, which was funded at $650 per student the first year. The payment will grow annually with inflation.

Basic program requirements. The original deadline for districts to apply for participation was June 30, 1997; the new one is 90 days after the Budget Act is signed, or mid-November this year. To receive the full funding, a district must hire additional teachers by November 1; training for the teachers and the new classes themselves must begin by February 16, 1998. If hiring and/or training do not occur by those dates, the incentive payment drops to $650 for students in full-day classes or $325 for students in small classes for half a day. The lower payments also apply to new students enrolling after February 16, 1998.

Class size reduction is so popular that the Legislature and Governor committed enough resources to cover all K–3 students — if only districts can find class space and teachers.

At each school, the initial reduction must be all first grade classes, then all of second, and finally kindergarten or third or both. If all K-3 students became part of the program, thousands more classes would have to be formed than in 1996-97.

The original class size reduction law required each school to provide at least as many square feet per student as in 1995-96. For this year only, districts may place multiple classes of students in one room with enough teachers to make the ratio 20 to 1.

The method of counting students is being changed to an average of daily enrollment, a measure that has not been previously used in any program. Beginning in 1998-99, the final average daily enrollment may not exceed 20.4 students per class.

Many schools moved speedily to reduce their class sizes in 1996-97. Some had little trouble hiring new teachers and finding or creating classrooms for them. Others reported a lack of qualified teachers and/or a severe lack of space. Schools that did have extra space, for example to accommodate portable classrooms on playgrounds, sometimes had to wait months for their delivery. In many places smaller classes were formed at the expense of programs for upper grades or other students; in some urban

schools, class size reduction was simply impossible because of space constraints.

A shortage of qualified teachers. The teacher shortage will be even more evident in 1997-98. The Commission on Teacher Credentialing reports a nearly three-fold jump in emergency permits for teachers who lacked a credential in 1996-97.

For more details, see the 1996 EdFact **California's New Class Size Reduction Law** *at www.edsource.org or order a copy of the June 1997 report titled* **Smaller Classes for the Youngest Students** *from the EdSource office.*

New legislation provides $4.5 million in incentive funds for programs that offer alternatives to the standard teacher credentialing process. These include a university-school intern program and two-year district internships.

Funding is increased from $7.3 to $17.9 million to add about 3,300 first- and second-year teachers in Beginning Teacher Support and Assessment (BTSA), an intensive staff development program for new teachers. Districts must provide 25% of the $4,500 cost per teacher.

Strengthening instruction in reading. Ensuring that all students learn to read at or above grade level by the end of third grade was a driving force behind the commitment to reduce class sizes. Districts report that 90% of K-3 teachers received some training in teaching reading in 1996-97, often including how to teach small groups.

The Legislature and Governor are targeting $56 million of federal Goals 2000 money to support the California Reading Initiative, a comprehensive effort that includes teacher professional development, new reading materials, and preparing new teachers to teach reading. The staff development will now cover all teachers in kindergarten through eighth grade. Each district is assured of receiving at least $1,000, though the bulk of the money will be granted in a competitive process.

A continuing facilities crisis. In some school districts, the lack of extra classroom space has been the overriding factor in the decision of whether or not to provide smaller classes. Recognizing that funding for facilities was especially inadequate last year, the Legislature changed four provisions of the law to address this problem in 1997-98.

1) About $160 million of the program funding was not spent in 1996-97. The money can now be used for facilities requests that were unmet during the first year of the program at $25,000 per classroom in qualifying districts.

2) The Legislature has established an allocation for each district of $800 multiplied by the eligible K-3 enrollment. The district may draw on this fund to pay for small classes for all the K-3 students, or it may divide the fund between small classes for some students and up to $40,000 for a new classroom established this year. To do the latter, the district must have received facilities funds last year, or must qualify for state construction funding, or must have insufficient space for new classes according to state-prescribed formulas.

3) Some schools are "land-locked." They have no extra rooms and no space for portables and therefore cannot meet the 20-to-1 ratio. Still, they may receive $800 per student to hire additional teachers or receive $40,000 facilities grants if they meet strict criteria. These include filing a long-range facilities plan, operating a multi-track year-round schedule, having at least 40% of their students on that schedule, enrolling more than 200 students per acre, and certifying that attendance boundary changes have been "considered."

4) Finally, the Legislature expressed the intent to direct any unspent 1997-98 class size reduction money to facilities grants of $40,000 for districts that implemented three grades of smaller classes in 1996-97 and to the land-locked schools.

In addition, because of the demand for facilities, schools may acquire and use portable classrooms that do not meet Field Act (earthquake safety) requirements for three more years, until 2000.

In the longer run, no one expects that these new provisions will provide sufficient resources to reinstate facilities that were co-opted for small primary classes, much less to address the pervasive problems of aging facilities and growing enrollments in all grades. This year's legislation is intended to be stop-gap until a more permanent solution is developed for providing classrooms.

REFORM IN SCHOOL FINANCE

With the exception of the recommendations for changing how Special Education is funded, the focus of school reform activities in recent years has been primarily on organization, decision making, curriculum, and accountability. The interaction between school finance and student performance is a new focus.

Long concerned with the need to restructure how K-12 education is funded, the Legislative Analyst's Office is working with the Departments of Finance and Education on a May 1998 report about ways to streamline the system. The LAO has already recommended simplifying revenue limits, redesigning the COLA to equalize revenue limits, phasing out basic aid, and consolidating all categorical programs into four blocks, with built-in evaluation.

Over the last year, the bipartisan Commission on California State Government Organization and Economy (often called the Little Hoover Commission) has been studying and hearing expert testimony about the way the state pays for public education. Their report, *Dollars and Sense: A Simple Approach to School Finance*, was forwarded to the Governor and Legislature in July 1997.

Calling the state's school funding system an incredibly complex one that defies comprehension, the report describes how it developed over the last 25 years and documents five findings and eight recommendations. These center around the need for greater simplicity, streamlining Special Education, improving accountability, increasing local control, and the difficult issue of adequate funding.

An executive summary and an order form are on the Commission's Web site, www.lhc.ca.gov, and at its office, 660 J Street, Suite 260, Sacramento, CA 95814.

mportant Issues Remain

he Legislature and Governor had a lot to talk out during spring and summer of 1997, espe-ally how the state would reform welfare to nform with the new federal law. From educa-on's viewpoint, two topics of key interest were sessing students' performance and finding nds for new classrooms and school buildings.

olitics Often Drives he Process

he gestation period for passage of the 1997-98 dget took nearly nine months. Fortunately r K-12 education, the state's economy im-oved steadily from January until the final cisions at the end of September. Unfortunately r just about everyone, however, the process as politically painful.

The considerations were complicated by the ed to decide about welfare reform and then by e Governor's July proposal to cut income taxes a billion dollars. The arguments continued hind closed doors for six weeks beyond the nstitutional deadline for the budget.

When the compromise budget bill was presented to the Legislature on August 11, it passed immediately. But two major decisions for education — about controversial statewide tests and about where to find billions of dollars for constructing classrooms — went unresolved until the very last day of the legislative session in September.

To the surprise of many observers, Governor Wilson got his 11th hour tax cut and his testing program. He then had until October 12 to give his approval or to veto legislation. In the end, some categorical programs received no COLA or funding for enrollment growth, and a number of small items were vetoed.

A New Statewide Basic Skills Test

Since California abandoned CLAS, the California Learning Assessment System, in 1994, no comparable statewide data exists about how students are performing in school. All parties concur that the issue is critically important, but that's the end of agreement.

While waiting for a new standards-based test (not expected until 1999), Governor Wilson wanted a single commercial test for all students in grades 2 through 11 in order to have individual scores for each student as well as comparable scores by grade, school, district, county, and the state.

The last-minute legislation is for a basic skills test to be recommended by the Superintendent of Public Instruction to the State Board of Education for approval. Prior to May 15, all students must be tested in English, although those who do not know English well may be tested in their native language in their first school year. Governor Wilson plans to post the scores on the Internet in June by grade, school, district, county, and statewide; he sees this disclosure as a key factor in accountability and the ability to make comparisons.

Meanwhile, in mid-September the Commission for the Establishment of Academic Content and Performance Standards proposed standards for reading, writing, and math for consideration by the State Board of Education. Board adoption will be the first official step in the development of legislatively mandated standards-based tests, presumably for 4th, 8th, and 10th graders. The relationship between that program and the new basic skills tests has not been clearly defined.

Controversy Ahead

A hotly contested proposal for a $20 billion bond measure for badly needed school construction over ten years did not make it onto the Governor's desk. Realizing that all the bonds previously authorized by voters had long since been used up, a six-person conference committee hammered out a package that had, in addition to the bond measure, limits on developer fees, a provision for a majority instead of two-thirds vote to approve local bonds, and simplification of the facilities approval process. Legislators failed to take action, but the issue may rise again when they convene in January.

The June 1998 election will have at least one proposition of interest to education, the so-called "95-5" measure to limit each district's expenditures on "administration" to 5%. And an initiative called "English for Children" is circulating for signatures; it would replace bilingual education programs with classes for intensive instruction in English.

The end of the 1997 legislative session left other issues on the table for discussion, including evaluation of the class size reduction program and open-ended questions about accountability and reforms. The final three years of 20th century education in California could be tumultuous.

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REPORT

School Finance 1997-98
written by
Penny Howell
researched by
Barbara Miller

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4151 Middlefield Road, Suite 100,
Palo Alto, CA 94303-4743
650/857-9604
Fax 650/857-9618
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Funding California's Schools
Highlights for 1997–98

Public education welcomes a multi-billion dollar increase to its funds in the 1997-98 school year, thanks to the state's healthy economy and the constitutional amendment known as Proposition 98. The state's budget is crucial for schools: it provides nearly all of their income, and it controls, to a certain extent, how the money may be spent.

K-12 education will benefit in 1997-98 from a revenue boost of over $3 billion, primarily because of the healthy California economy. This will permit full funding of smaller classes in kindergarten through third grades and an addition to each school district's general purpose income.

Some of the additional funding for schools is because of the rapidly growing student population. But the Legislature and Governor made the critical policy decision to divide most of the extra amount — over $3 billion — in two ways: full support for small classes in kindergarten through third grade and additional amounts of unrestricted money for all districts.

The rest of the revenue will be distributed in much the same way as it has been for years: about two-thirds for general purposes and one-third for special purposes that reflect legislative priorities for K-12 education. Even with the additional money, the amount per pupil, when adjusted for inflation, is barely more than ten years ago. California will still remain well below the national average in its spending for K-12 schools.

How the Money is Allocated to Schools

The question of how much money each school district will get does not have a simple answer. This is because the system for allocating education revenues has so many pieces.

General purpose income

For the school (and fiscal) year that began on July 1, all districts have an increase in their per pupil funding, called their "revenue limit." The money is for the general expenses of educating students, and it is the backbone of every district's budget.

Current law provides a cost-of-living adjustment (COLA) for county offices of education and school district revenue limits. The average 2.65% increase for 1997-98 will be around $89 per pupil for elementary districts (kindergarten through 8th grade), $107 for high school (9th through 12th), and $93 for unified (kindergarten through 12th).

All districts will receive an additional payment to partially compensate for years in which the Legislature did not allocate enough money to meet the statutory COLA. In addition, districts with revenue limits below the statewide average for their type and size will get an extra amount for each pupil, called "equalization aid." Its purpose is to bring districts closer to the statewide average. The combination of these additional funds will be small in districts with high revenue limits and over 4% in ones with lower revenue limits.

Since the passage of Proposition 13 in 1978, funding decisions have been centralized in Sacramento. Usually the proportion from property taxes or from state taxes does not affect a district's total income, because of its revenue limit. The exception is "basic aid" districts; these districts may keep all the money and still receive $120 per student in state aid that is mandated in the California Constitution.

The calculation of each district's revenue limit takes a worksheet with many pages. The resulting income is based on the district's average daily attendance (ADA) rather than its enrollment. ADA is the actual daily student attendance divided by the number of school days.

Creating smaller classes

Last year over 50% of the state's K-3 students moved into classes of 20 or fewer per teacher. The program was so popular among so many people that neither the Legislature nor the Governor hesitated to commit enough resources to cover the entire K-3 student population for 1997-98. If all K-3 students become part of the program, thousands more classes (each one needing a teacher) would have to be formed.

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1997-98 California School Funding Highlights

TOTAL REVENUE FOR SCHOOLS INCREASES

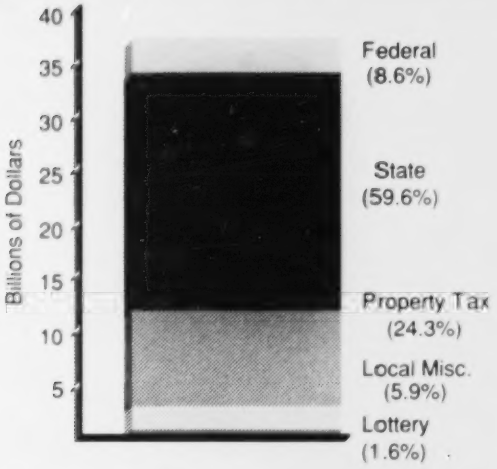

Figure 1. The total projected revenue from all sources for California K-12 education in 1997-98 is $36.9 billion. The state's proportion is slightly higher this year than last thanks to California's strong economy. At the same time these revenues will have to cover an estimated 130,000 new students.

Data: Office of the Legislative Analyst EdSource 10/97

BUT ENROLLMENT GROWTH CONTINUES UNABATED INTO THE NEXT CENTURY

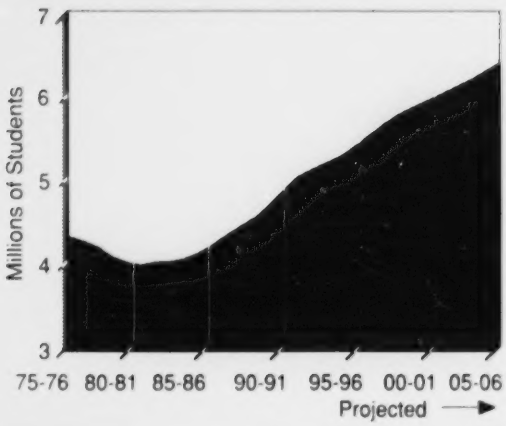

Figure 2. In one decade (1985–1995) the number of students in California's public schools grew by almost 1.2 million, more students than the entire school enrollment of the state of New Jersey in 1995. That growth rate is projected to continue.

Data: California Department of Finance EdSource 10/97

AND REVENUES PER STUDENT BARELY KEEP PACE WITH INFLATION

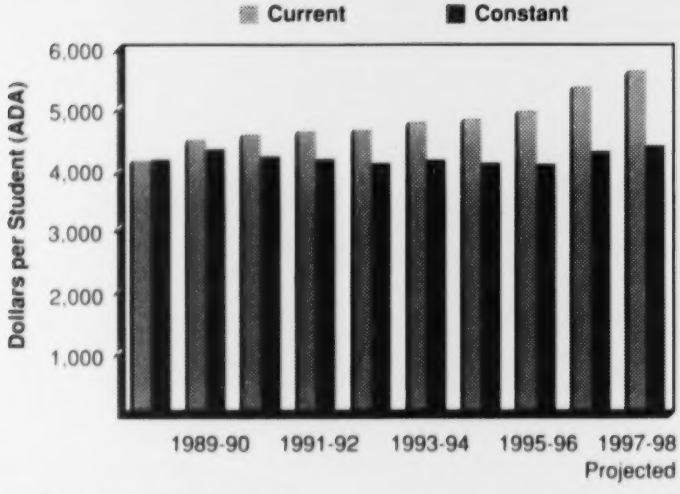

Figure 3. Despite a healthy funding increase projected for California's schools in 1997–98, the amount per pupil in constant dollars* has barely changed since the beginning of the decade. And the additional revenue will probably not be enough to substantially improve California's low ranking, 41st in 1995–96, in expenditures per student compared to other states.

*as measured by the change in the Implicit Price Deflator for State and Local Governments' Purchase of Goods and Services

Data: Office of the Legislative Analyst EdSource 10/97

To encourage districts to form smaller classes, the state-provided incentive payment, which will grow with inflation in the future, was increased to $800 for each student in a small class for the entire school day (or $400 for half a day). This is expected to fully cover costs, on the average.

Lack of extra classroom space was an overwhelming problem in many districts. Recognizing that, the Legislature directed that unspent class size reduction money from last year may be used for facilities requests this year. In addition, the Legislature set up an allocation for each district of $800 times the number of its K-3 students; it may be used for smaller classes or for facilities at $40,000 per new class.

Finding qualified teachers is, along with facilities, a major challenge for many schools. The Legislature is continuing to support programs that will improve the supply of teachers as well as provide training in teaching reading, a driving factor in the class size reduction law.

Categorical aid for specific purposes

California's budget always includes support earmarked for particular programs. Some of these are driven by laws or court decisions, while others are a legislative or gubernatorial priority, and still others are simply tradition.

The money can be given as a grant based on the number of low-income or low-achieving students; as partial reimbursement for a service offered to students, such as transportation; or as an incentive to encourage a particular activity, such as creating a year-round schedule. Categorical aid almost always has regulations about how the money may be used.

The 1997-98 budget continues to support categorical programs. The largest ones are in Figure 4. The way California is providing services to nearly 600,000 students with educational, physical, or mental disabilities is so complex that it is a finance system all its own. Special Education has long been the single largest categorical program funded by this state. The complete list of more than 50 programs remains almost the same year after year. One of the new ones for 1997 will provide hundreds of thousands of computers for the "Digital High School."

Figure 4

THE LARGEST CATEGORICAL PROGRAMS

State Programs	1997-98 Millions
Special Education	$2,086.718
Class Size Reduction (Primary Grades)	1,488.535
Child Development, Preschool	621.070
Desegregation	604.659
Adult Education & CalWORKS	515.070
Transportation (including Special Education)	499.008
EIA (Economic Impact Aid)	385.389
SIP (School Improvement Program)	379.164
ROC/P (Regional Occupational Centers/Programs)	292.587
Major Federal Programs	**1997-98 Millions**
Child Nutrition	$1,182.766
Title I [formerly Chapter 1]	944.128
Child Development	353.410
Special Education	329.040

THE PROPOSITION 98 GUARANTEE

- The Legislature must give K-14 education at least a minimum amount guaranteed by Proposition 98, which was added to the California Constitution by voters in 1988 and amended by Proposition 111 in 1990. The complex calculation depends on state revenues, local property taxes, personal income, school enrollment growth, and the state's population.
- This guarantee jumped by over $3 billion in 1997-98, mainly because of the state's healthy economy. Some of those additional funds are recalculations for previous years' guarantee, payment from the settlement of a court suit (*CTA v. Gould*), and restoration of underpayments during the years of dampened state revenues. The restoration is almost complete, and education cannot expect such a large increase next year even if the economy stays strong.

Several years ago the Democratic Legislature combined over 30 categorical programs into one "mega-item" in the budget, thus limiting the Republican Governor's ability to veto individual programs. In turn, the Republicans supported more flexibility in how districts may spend the money within the single line item. The statewide appropriation is about $2.4 billion for 1997–98, a 5% increase. However, more students in these programs means the amount per student is actually lower than in 1996–97.

The federal government also supports special programs in California, particularly child nutrition and "Title I" for low-income, low-achieving children. About $95 million from the federal reform legislation, Goals 2000, may be used as the Governor and Legislature determine.

The Sources of School Revenues

The various sources of K-12 education's revenues are in Figure 1. The $36.9 billion must cover approximately 130,000 additional students.

State revenues from sales and personal or corporate income taxes ($22 billion) and property taxes ($9 billion) form 84% of total revenues in 1997-98. The chart shows the three other, relatively small, revenue sources: $3.2 billion from federal government programs; $2.2 billion from miscellaneous local items such as fees on new real estate developments, interest on reserves, cafeterias, contributions from businesses and individuals, and parcel tax elections; and $582 million from the California State Lottery.

School districts may levy a tax on parcels of property or issue general obligation bonds for school construction — if two-thirds of their voters agree. In the past ten years, most elections would have succeeded if a majority vote had been sufficient. Otherwise, the governing board has no independent authority to raise more tax revenue. This constraint is particularly onerous in growing districts that badly need more classrooms or whole schools.

TO LEARN MORE

For more information order our full EdSource report, *School Finance 1997-98.*

Related EdSource publications are:

- *California's K-12 School Finance System*
- *A Primer on School Finance*
- *Understanding School Budgets ... As Simple as 1 2 3*
- *A Glossary of School Finance Terms*
- *Categorical Aid: Special Dollars for Special Purposes*
- *A Primer on Proposition 98*
- *Selected Readings in School Finance*
- *Smaller Classes for the Youngest Students*
- *A Guide to California's New K-3 Reading Program*

Politics Often Drives the Process

The process of settling this year's state budget was politically painful, extending six weeks into the beginning of the new fiscal year. At the last minute the Legislature and Governor agreed on revisions in financing Special Education and on an immediate testing program for students in grades 2 to 11, pending the development of a statewide standards-based program in several years. Even then, some questions affecting schools are still unsettled.

Several issues bear watching as the year progresses:

- Possible legislative action to place a measure on the June 1998 ballot for a ten-year $20 billion program for desperately needed state bonds for school facilities.
- A June 1998 ballot measure, "95–5," that limits districts' expenditures on "administration" to 5%. The ballot may also contain a controversial initiative to replace bilingual education programs with intensive instruction in English.
- Adoption of newly developed standards in reading, writing, and mathematics by the State Board of Education. State assessments will then have to be aligned with the standards.

Deliberations in Sacramento continue to have a dramatic impact on local school districts' dollars, decisions, and operations. VE

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4151 Middlefield Road, Suite 100, Palo Alto, CA 94303-4743
650/857-9604
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EdSource, a unique statewide nonprofit, is an invaluable resource for everyone who cares about California's public schools. EdSource specializes in clarifying complex education issues and policy choices — and in providing you with accurate, balanced, and up-to-date education statistics, data, and analysis.

EdSource publications cover a diverse range of topics related to California's public schools and policy issues, including school finance. If you are trying to understand or explain school budgeting, you may find the following EdSource materials helpful.

Related EdSource publications:

- *California's K-12 School Finance System*
- *Glossary of School Finance Terms*

Related EdSource EdFacts*:

- *A Primer on School Finance*
- *How California's Education Dollars Are Spent*
- *A Primer on Proposition 98*

*free upon request

ABOUT THIS PUBLICATION

Since it was first printed in 1988, *Understanding School Budgets . . . As Simple As 1,2,3* has become a must-have reference in school districts throughout California. New administrators, school board members, and interested teachers, parents, and community members depend on it to learn about school budgeting and become more effective participants in finance-related decisions.

Additional copies of *Understanding School Budgets . . . As Simple As 1,2,3* are available from EdSource for $8 (plus $1 shipping). Bulk discounts are given for orders of ten or more.

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Staff for this report includes:
Project Writer: *Penny Howell*
Project Researcher: *Barbara Miller*
Executive Director: *Trish Williams*

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4151 Middlefield Road,
Suite 100
Palo Alto, CA 94303-4743
415/857-9604
FAX 415/857-9618

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INTRODUCTION

A school budget is a planning document that links financial decisions to educational policy. It contains the district's priorities and its strategies for achieving those priorities. Examples are the number of academic and co-curricular courses to offer; different kinds of support services; the ratio of students to adults; and whether the district will have accelerated learning programs, a cafeteria, or after-school sports.

A district's budget describes the expected revenues and the plans for using them during a fiscal year that begins July 1 and ends June 30. The document also defines accountability of the governing board to the public, the superintendent to the board, the program manager to the superintendent, and the staff to the managers.

A school district's budget can be multi-volume or only the state-required forms, confined to numbers or expanded to a comprehensive narrative. The ideal budget document is a combination of numbers and text that conveys policies related to finances, goals for programs, assumptions used to develop the budget, comparisons to the previous year, projections for the future, and a calendar — all clearly presented and easily accessible for the school community.

A considerable portion of a school district's budget is regulated by an extensive body of laws, court orders, and government regulations. A smaller portion is discretionary, and some of it is set by past practice and precedent. In most districts at least 85% of the budget is for personnel — the salaries and benefits for teachers, administrators, and support staff.

Because of the great variation in their size and location and the diversity of their student population, California's 999 districts and 58 county offices of education differ in complexity, local costs, and access to resources. But all of them share common state requirements to:

- meet budget deadlines
- estimate their income and expenditures before the state's budget is passed
- make sure their budgets are in balance
- certify (twice a year) their financial status and ability to meet future obligations
- report their enrollment (average daily attendance, or ADA) in the fall and winter
- use state-mandated accounting classifications and reporting forms
- arrange for an independent annual audit
- invite public comment before approving the budget for the year and before beginning negotiations with employees' unions or approving contracts.

The County Superintendent must approve a district's budget and monitor its financial status. If a district is in financial difficulty, the County Superintendent or Superintendent of Public Instruction may take control of it.

This booklet is a guide for understanding the content of budgets, the flow of the budget process, and the management of budgets. It describes some of the links between financial decisions and the delivery of education, and it suggests questions to ask about local district budgets.

Table of Contents

Introduction 1

1 What Budgets Look Like

Fund Accounting 2
The Line Item Budget 3
Program Budgets 5
State Reporting Forms 6

2 The Budget Process

Building the Budget 10
Projecting Revenues 10
Estimating Expenditures 12
Links to Educational Decisions 13
School Site Budgeting 14
Monitoring the Budget 15

3 Comparisons, Analysis, Planning

The Average District 16
Analyzing a Budget 17
Regional Relationships 18
Long Range Planning 19

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FUND ACCOUNTING
IS THE FOUNDATION FOR SCHOOL BUDGETING

California school districts use a system called "fund accounting." All revenues are placed in the General Fund or in one of the separate funds which are either required or permitted by law.

The major required and permitted funds are listed in Figure 1. A district may have a few of these funds, or it may have many, depending on the services or programs it offers and the source and purpose of its revenues. Expenditures from the various funds must be made according to the fund's designated functions.

All funds are self-balancing. They contain:

- a beginning balance (last year's ending balance)
- revenues
- expenditures
- an ending balance

Most of the district's financial transactions flow through the General Fund. The largest part is spent for general purposes, although some of the money is restricted to a specific use, such as particular education programs.

The ending balance in the General Fund is usually divided between money which is available for expenditure by majority board vote and money which is intended for a specific purpose.

The school board may establish a Special Reserve Fund. Unlike other funds, the assets can be transferred at any time to the General Fund, and they may be spent as the board decides. Different sources of revenue may also be co-mingled in the Special Reserve.

In contrast, uses are restricted for the Capital Facilities Fund, which contains the developer fees collected by the district. Major capital expenditures — for example, for classrooms or school buildings — are handled separately from the General Fund.

If any money has been borrowed from one fund for use in another, it normally must be repaid by the end of the fiscal year.

Figure 1 Required and Permitted Funds

All district revenues must be placed in a fund to assure that money is spent and accounted for in conformance with the law.

Required for all revenues (including lottery) except those which must, by law, be in a separate fund:

- General Fund (or County School Service Fund for County Offices of Education)

Required if a district receives these revenues from local, state, or federal sources (expenditures are restricted to designated activities):

- Adult Education
- Bond Interest and Redemption
- Building Fund
- Capital Facilities (developer fees)
- Child Development
- Deferred Maintenance
- State School Building Lease-Purchase
- Tax Override
- Debt Service
- Forest Reserve (County Offices of Education only)
- Foundation Trust Fund

Permitted at the option of a school district (plus others which are authorized by law):

- Cafeteria Fund or Account
- Pupil Transportation Equipment
- Self-Insurance
- Special Reserve for Capital Outlay Projects
- Special Reserve (other than capital projects)
- Student Body
- Warehouse Revolving Fund
- Article XIII-B Fund
- Retiree Benefit Fund

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THE LINE ITEM BUDGET

In all funds, revenues and expenditures are recorded line by line according to the object, or use. These line items describe the specific sources of revenue, from general state aid to local miscellaneous income to special (categorical) state and federal aid; and they show how the district's income is spent.

The line item format for the General Fund is the familiar one which is commonly thought of as "the budget." Figure 2 gives

Figure 2 A Sample Line Item Budget

General Fund	1995-96 Estimated Actual			1996-97 Budget			
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Percent change
Revenues							
Revenue Limit Sources **(8010-8099)** (state funds & local property taxes)	$ 22,984,711	$ 721,389	$ 23,706,100	$ 24,232,350	$ 739,969	$ 24,972,319	5.3
Federal Revenue **(8100-8299)** (categorical or special purpose grants)	0	1,957,445	1,957,445	0	1,430,852	1,430,852	(26.9)
Other State Revenues **(8300-8599)** (categorical aid, mandated costs, lottery)	1,528,320	3,953,947	5,482,267	978,300	3,323,277	4,301,577	(21.5)
Other Local Revenues **(8600-8799)** (lease of property, interest, donations, parcel taxes, misc.)	999,650	277,528	1,277,178	1,044,300	64,000	1,108,300	(13.2)
TOTAL REVENUES	**$ 25,512,681**	**$ 6,910,309**	**$ 32,422,990**	**$ 26,254,950**	**$ 5,558,098**	**$ 31,813,048**	**(1.9)**
Expenditures							
Certificated Salaries **(1000-1999)** (teachers, others required to have a valid certificate such as administrators, counselors, librarians)	$ 14,851,912	$ 3,040,862	$ 17,892,774	$ 15,701,871	$ 2,677,052	$ 18,378,923	2.7
Classified Salaries **(2000-2999)** (non-certificated, such as aides, secrctaries bus drivers, custodians)	3,006,384	1,549,233	4,555,617	3,093,440	1,434,544	4,527,984	(0.6)
Employee Benefits **(3000-3999)**	4,474,207	1,021,939	5,496,046	4,560,321	931,752	5,492,073	(0.1)
Books and Supplies **(4000-4999)**	884,421	867,877	1,752,298	694,583	491,555	1,186,138	(32.3)
Services, Other Operating Expense **(5000-5999)** (insurance, utilities)	1,996,509	706,007	2,702,516	1,991,462	428,573	2,420,035	(10.5)
Capital Outlay **(6000-6599)** (site improvements, equipment, new libraries)	123,348	160,480	283,828	51,185	33,668	84,853	(70.1)
Other Outgo **(7100-7299)** (tuition to schools, districts)	217,657	5,000	222,657	227,657	58,000	285,657	(28.3)
Direct Support/Indirect Costs **(7300-7399)**	(93,371)	93,371	0	(57,409)	57,409	0	
TOTAL EXPENDITURES	**$ 25,461,067**	**$ 7,444,669**	**$ 32,905,736**	**$ 26,263,110**	**$ 6,112,553**	**$ 32,375,663**	**(1.6)**
Excess (Deficiency) of Revenues Over Expenditures	$ 51,614	$ (534,360)	$ (482,746)	$ (8,160)	$ (554,455)	$ (562,615)	16.5
Other Financing Sources/Uses							
Interfund Transfers, Other Uses **(net, 8900 minus 7600)**	$ 98,000	$ 0	$ 98,000	$ 223,000	$ 0	$ 223,000	
Contributions to Restricted Programs **(8980-8999)**	(477,807)	477,807	0	(554,455)	554,455	0	
TOTAL, OTHER FINANCING SOURCES/USES	**$ (379,807)**	**$ 477,807**	**$ 98,000**	**$ (331,455)**	**$ (554,455)**	**$ 223,000**	**127.5**
Net Increase (Decrease) in Fund Balance	$ (328,193)	$ (56,553)	$ (384,746)	$ (339,615)	0	$ (339,615)	(11.7)
General Fund Balance, Reserves							
Beginning Balance as of July 1	$ 1,741,231	$ 56,553	$ 1,797,784	$ 1,413,038	0	$ 1,413,038	(21.4)
Ending Balance, June 30 (beginning balance in budget year)	1,413,038	0	1,413,038	1,073,423	0	1,073,423	(24.0)
Components of Ending Balance							
Reserved Amounts **(9600)** (stores, cash)	422,000	0	422,000	422,000	0	422,000	0.0
Designated for Economic Uncertainties **(9710)**	987,000	0	987,000	970,000	0	970,000	(1.7)
Designated for Other Purposes **(9720-9789)**	0	0	0	0	0	0	0.0
Undesignated/Unappropriated Amount **(9790)**	4,038	0	4,038	(318,577)	0	(318,577)	xxx

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an example. It includes the major categories of revenues and expenditures and the account numbers that are used by all districts in the state.

This general fund budget does not reveal which revenues are earmarked for specific expenditures (certain categorical programs, for example) or which expenditures are offset by earmarked revenue, and it does not indicate anything about money in other funds. It does show the difference between revenues and expenditures, i.e., whether or not the district is operating at a deficit. It also shows when money has been transferred to other funds — or vice versa, in which case the district may be dipping into reserves to balance the budget.

Each line item in the General Fund must be listed in columns marked "restricted" or "unrestricted." Restricted means that some or all of the dollars are earmarked by state or federal law for specific objectives. The California School Accounting Manual gives guidelines for segregating these items.

In the General Fund, the classification "Designated for Economic Uncertainties" is sometimes referred to as "the reserve." This is money set aside for major unforeseen expenses. Money may also be held in a Special Reserve Fund. The criteria adopted by the State Board of Education requires minimum available reserves of 2-5% of General Fund expenditures, according to the size of the district:

Recommended Minimum Reserves

ADA	Total Expenditures (including Transfers & Uses)
0-300	5% or $50,000
301-1,000	4% or $50,000
1,001-30,000	3%
30,001-400,000	2%
over 400,000	1%

The board may set aside additional amounts for other purposes; these are also called "reserves."

Although the General Fund contains the great majority of the revenues and expenditures, the district's whole financial picture includes all of its other funds. Districts must state the balance in any Special Reserve Funds on their financial report.

PROGRAM BUDGETS

A MORE DESCRIPTIVE LOOK AT BUDGET PRIORITIES

The financial information in the General Fund can be displayed according to building sites, divisions, or departments. The numbers can also be broken down in a way which ties them more directly to the educational program of the district. Then the expenditures are listed by particular educational purposes, by separate cost centers, or by the activities they support. These are called "program budgets."

Program budgets provide a great deal of information about a district. Examples of programs are:

Classroom instruction

- general education, grades K-5
- elementary music
- high school Spanish

Instructional support services

- staff development
- library, grades 9-12
- computer labs

Figure 3 **A Sample Program Budget**

Technology Education

Goal: To support the educational computer program by providing continuing support and technical services to most effectively utilize computer hardware and software in the district.

Program Description: The department provides computer inservice classes, a telephone hotline, assistance in writing and monitoring grant proposals, hardware and software consultation, immediate replacement of malfunctioning equipment, and repair of equipment.

		1993-94 Actual Expenditures		1994-95 Actual Expenditures		1995-96 Adopted Budget	
			FTE		FTE		FTE
1000	CERTIFICATED SALARIES						
	Teachers	$ 47,834	0.70	$ 50,358	0.70	$ 48,459	0.70
2000	CLASSIFIED SALARIES						
	Staff	52,788	1.50	59,354	1.13	56,085	1.50
3000	EMPLOYEE BENEFITS						
	Employees	19,489		22,910		24,250	
4000	SUPPLIES, BOOKS & EQUIPMENT						
	Books and Supplies	74,416		71,471		70,000	
5000	CONTRACTED SERVICES						
	Maintenance	60,048		88,146		37,688	
	Utilities & Housekeeping	494		491		0	
	Technology Education	3,926		3,225		10,800	
6000	CAPITAL OUTLAY						
	Equipment	83,886		91,898		0	
TOTAL TECHNOLOGY EDUCATION		**$ 342,881**	**2.20**	**$ 387,853**	**1.83**	**$ 247,282**	**2.20**
	FUNDING SOURCES						
	General Fund	$ 317,881		$ 362,853		$ 209,082	
	Grants	0		0		3,200	
	State Sources	25,000		25,000		35,000	
	TOTAL FUNDING	$ 342,881		$ 387,853		$ 247,282	

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School administration

- principals and secretaries

Pupil services

- counseling

Administrative and support services (general)

- business services
- general maintenance
- transportation

A complete program budget states the goal of the program, its objectives for the year, and how the district plans to meet them. It can show the numbers of pupils served and staff, as well as the direct and support costs of the program. It can include indirect costs, such as administrative or overhead expenditures allocated to the program. Last, and very important, the program budget lists the sources of funding for the program, usually the district's general income or federal and/or state categorical funds.

Figure 3 gives an example of a program budget which is part of General Fund expenditures. The program budgets for other funds, such as for Adult Education, cover the activities in that fund only.

Program budgets help the board and superintendent to know how much can be saved by eliminating a program or what a new one costs. These budgets also indicate if the district's expenditures on a categorical program, such as Special Education, exceed federal and/or state revenue. When supplemental money is spent from the General Fund to support mandated programs, the amount is called "encroachment."

STATE REPORTING FORMS PROVIDE BASIS FOR COMPARISON

The information in school budgets is presented on forms provided by the California Department of Education (CDE). Each income and expense item is listed according to accounting guidelines that all districts must use.

The California School Accounting Manual consolidates the laws and administrative requirements for the management of money in school districts. It specifies, for example, which money must go into which funds, what rules govern the transfer of money among funds, and which sources are restricted or unrestricted.

A new standardized account code structure, outlined in Figure 4, is being phased in by California school districts. Its purpose is "to create a logical framework which can be used to determine where education funds come from and how they are used." The goal is to improve both reporting and decision making based on a uniform and comprehen-

Figure 4

Components of the New Standardized Account Code Structure

Fund/Group	Which account is used to administer education expenditures?
Resource (Project Reporting)	Where have the funds come from? What is the categorical project or revenue source?
Program Goal	Why was the expenditure made? What broad purpose does it serve?
Function (Activity)	How will the expenditures be used? On what activities or services will funds be spent?
Object	What specifically is being purchased? On what particular items will the funds be spent?
School (Optional)	Where will the funds be spent? What location benefits from the funds?

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sive but minimal chart of accounts that will ensure compliance with federal regulations and good accounting practices.

Once the system is in place, districts and counties will send information electronically to the CDE. Not only will the data be more accurate, but also the time to fill out paperwork will be reduced. In addition, the Department will be able to file required federal reports more easily and, especially, to extract useful information for legislators, school board members, administrators, teachers, and members of the school community.

Compliance with the many reports and regulations that originate in Sacramento is part of an effort to increase accountability for the use of public funds. The system specifies how districts must track and report their revenues and expenditures and project fiscal solvency. A strong impetus for the requirements is to create an early warning system for districts to avert a financial crisis which could lead to bankruptcy and/or the need for state bailout funds.

Districts must certify their financial condition for the periods ending October 31 and January 31, filing what are called Interim Reports. The district must not only look at their finances for the current year, but also project ahead for another two years.

A district with a qualified or negative report comes under the watchful eye of its County Superintendent or, if a loan is required, the Superintendent of Public Instruction. As Figure 5 shows, the Criteria and Standards for reviewing budgets cover

Figure 5 Criteria and Standards for Reviewing School District Budgets

	Number of Students (ADA) in the District				
	Up to 300	**301 to 1,000**	**1,001 to 30,000**	**30,001 to 400,000**	**Over 400,000**
ADA was not overestimated the previous year or two of the three prior years by more than	3%	2.5%	2%	1.5%	1%
Operating Deficits (expenditures exceeding revenues) in previous two years or in the first and third prior years did not exceed	1.65%	1.32%	0.99%	0.66%	0.33%
Available Reserves compared to total expenditures, transfers, and uses are more than	greater of 5% or $50,000	greater of 4% or $30,000	3%	2%	1%

Supplemental Information

- Ending balance compared to three previous years and explanation of any continuing decline
- One-time resources used for ongoing expenditures and how they will be replaced in following years
- Multiyear commitments such as loans, leases, retirement benefits, and their funding source
- Analysis of the status and costs of employee negotiations for certificated and classified employees, including salary increases, step and column costs, health benefits, and contract changes with costs, such as class size reductions

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estimates of Average Daily Attendance (ADA), operating deficits and size of reserves, trends in the change of fund balance, use of one-time revenues, multi-year financial commitments, and the status of employee negotiations.

Districts have various ways of preparing their own internal reports to the board and summaries for the public. These are tailored according to local custom or need for timely and accurate reporting, budget management, and planning. A midyear report on the form shown in Figure 6 is required of all districts.

Helpful supplementary information can include budgeted and actual amounts from the previous year, the amounts which are encumbered (obligated in contracts), and amounts which the district expects to spend by the end of the year.

All budget documents and reporting forms are public information. Since they are uniformly required, they are the most reliable source for comparing financial patterns and conditions among districts.

Figure 6 **A Sample Interim or Midyear Budget Report**

	Original Budget (A)	Operating Budget (B)	Actuals To Date (C)	Projected Year Totals (D)	Difference (B)&(D)	Percent Difference
Revenues						
Revenue Limit Sources	$ 6,916,687	$ 6,769,119	$ 4,003,905	$ 6,774,806	$ 5,687	0.08%
Federal Revenues	112,664	128,253	35,845	128,456	203	0.16%
Other State Revenues	855,407	1,001,900	660,795	1,122,096	120,196	12.00%
Other Local Revenues	1,231,376	1,259,779	745,398	1,263,586	3,807	0.30%
TOTAL REVENUES	**$ 9,116,134**	**$ 9,159,051**	**$ 5,445,943**	**$ 9,288,944**		
Expenditures						
Certificated Salaries	$ 5,186,412	$ 5,092,204	$ 2,582,790	$ 5,239,852	$ -147,648	-2.90%
Classified Salaries	958,870	975,049	532,972	1,009,422	-34,373	-3.53%
Employee Benefits	1,328,136	1,297,465	635,629	1,315,415	-17,950	-1.38%
Books and Supplies	344,429	529,110	226,216	537,731	-8,621	-1.63%
Services, Other Operating Exp	951,216	963,295	507,218	1,014,801	-51,506	-5.35%
Capital Outlay	58,553	91,301	58,584	101,392	-10,091	-11.05%
Other Outgo	89,105	92,539	0	93,868	-1,329	-1.44%
Direct Support/Indirect Costs	0	0	0	0	0	
TOTAL EXPENDITURES	**$ 8,916,721**	**$ 9,040,963**	**$ 4,543,409**	**$ 9,312,481**		
Excess (Deficiency) of Revenues over Expenditures	$ 199,413	$ 118,088	$ 902,534	$ -23,537		
Other Financing Sources/Uses						
Interfund Transfers						
Transfers In	$ 32,000	$ 32,000	$ 0	$ 32,000	$ 0	0%
Transfers Out	-282,000	-282,000	0	-200,000	82,000	29.08%
Other Sources/Uses	0	0	0	0	0	0%
Contributions to Restricted Programs	0	0	0	0	0	0%
TOTAL OTHER SOURCES/USES	**$ -250,000**	**$ -250,000**	**$ 0**	**$ -168,000**		
Net Increase (Decrease) in Fund Balance	$ -50,587	$ -131,912	$ 902,534	$ -191,537		
General Fund Balance, Reserves						
Beginning Balance, July 1	$ 219,362	$ 219,362	********	$ 219,362		
Reserved Amounts	2,000	2,254	********	2,254		
Designated for Economic Uncertainties	0	0	********	0		
Designated for Other Purposes	0	0	********	0		
Undesignated/Unappropriated Amount	166,775	85,196	********	25,571		
Ending Balance, June 30	$ 168,775	$ 87,450	********	$ 27,825		

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Figure 7 Budget Calendar

Month	District Planning & Personnel	Budget Dates	Required Reports
September	Board receives results of achievement and proficiency tests for previous school year	(See below for Dual or Single Adoption schedule.) By 9/30 Board adopts Gann Limit	By 9/15 District files prior year financial reports with county
October		By 10/31 District may select Single Adoption Calendar for following fiscal year By 10/31 Budget Review Committee (if any) reports recommendations	By 10/15 County reviews, certifies district's prior year financial reports, files with Superintendent of Public Instruction 10/31 End of first interim period for certification of district's financial condition
November	Develop budget planning timeline	By 11/31 County Superintendent develops and adopts fiscal plan and budget for districts with disapproved budget, using Budget Review Committee input	
December	Update and review preliminary projections, especially enrollment and staffing	By 12/15 District files audit of previous year	By 12/15 Board approves first interim certification report on district's financial condition
January	Review program, plan curriculum changes	By 1/31 Board holds public hearing, reviews audit	1/31 End of second interim period for certification of of district's financial condition
February	Review potential expansions or reductions, including personnel changes such as reassignment of principals or staff layoffs		
March	By 3/1 Notices to principals of reassignment to classroom By 3/15 Preliminary layoff notice to teachers Teachers may request a layoff hearing		By 3/17 Board approves second interim certification report on district's financial condition
April	Students take achievement and proficiency tests	By 4/1 District hires auditor	
May	45-day notice of non-reemployment sent to superintendent and senior management By 5/7 Administrative Law Judge holds teacher layoff hearings if requested By 5/15 Final teacher layoff notices sent Notice to classified staff, if necessary	Budget draft prepared for Board and public Effects of State Budget Act on school funding estimated	
June	By 6/30 Final administrator layoff notices sent	By 6/1 District projects fund and cash balances **Dual Adoption Calendar***	**Single Adoption Calendar*** County Superintendent publishes notice of public hearing on district's budget at least 10 days beforehand
July		By 7/1 Board holds public hearing, adopts budget, files with County Superintendent	By 7/1 Board holds public hearing, adopts budget, files with County Superintendent
August		By 8/15 County Superintendent approves or disapproves district budget, reports disapproval to Superintendent of Public Instruction by 8/20 County Superintendent publishes notice of public hearing on district's budget at least 10 days beforehand	By 8/15 County Superintendent approves or disapproves district budget, reports disapproval to Superintendent of Public Instruction by 8/20 Within 45 days after Governor signs Budget Act, district makes public any revisions to budget revenues and expenditures
September/ October		By 9/8 District holds public hearing, adopts revised budget, files with County Superintendent By 10/8 County Superintendent approves or disapproves revised budget If budget disapproved, Budget or Regional Review Committee formed	By 9/8 District files revised budget with county if earlier budget disapproved

* *Districts may choose a budget calendar with one public hearing and budget adoption plus later revision (Single Adoption Calendar) or two sets of public hearings and budget adoptions (Dual Adoption Calendar)*

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BUILDING THE BUDGET
AN ONGOING PROCESS

The fiscal year for school districts as well as the state starts on July 1, but the budgeting process is virtually continuous.

Figure 7 outlines a typical budget cycle for school districts. The full calendar is usually much more detailed. It may include dates for policy decisions, a listing of who has what responsibility, how and when the current budget will be monitored and updated during the year, and how the information and input for the next year's budget will be gathered. Districts can decide whether to go on a "dual" or "single" adoption calendar. In the latter the budget is finalized within 45 days of when the governor signs the State Budget Act; in a dual adoption, the final decisions are made by September 8.

The process is punctuated by legal deadlines and reporting dates. The decisions made during the year by school site councils, administrative councils, budget committees, and other district groups such as PTAs or school foundations can affect the budgeting process. Agreements on contracts with employees will have effects on current and future budgets. Projections and requests from departments or school managers are needed, as are enrollment estimates.

School board discussions about the budget must occur in public, and a hearing on the proposed budget must be publicized and held as a part of the budget adoption process. The opportunity for public input is required by law.

PROJECTING REVENUES
IS THE FIRST STEP

The budget process begins with a careful projection of revenues because income, not need, determines expenditures for schools. That income is affected by legislated formulas and by the district's enrollment, technically average daily attendance (ADA).

Each district has a "revenue limit," an amount of money it may receive for general purposes. The revenue limit was originally set at the amount each district was spending in 1972.

A district's revenue limit is usually increased each year by a cost-of-living adjustment (COLA). The COLA is a dollar amount per ADA. The base revenue limit is multiplied by the district's ADA to arrive at the general purpose apportionment it will receive.

Regulations control the definition of ADA and the complex computation of the district's total revenue limit income. That income is composed of whatever local property taxes a district receives, plus additional state funds to fill up its revenue limit allowance. When a district's property tax income increases, the state's payment is reduced.*

* *About 50 of the 999 school districts are so-called "basic aid" districts. Their property tax income exceeds their revenue limit per student. They may keep all of the property tax funds and in addition receive $120 from the state. However, they often discourage interdistrict transfer of students into the district because it means the property tax money must be spread among more students.*

The statewide apportionment for revenue limits can be increased or adjusted only by the Legislature, with the agreement of the Governor.

Revenue limit income makes up most of each district's General Fund, and most of its use is unrestricted. The rest of the General Fund income comes primarily from restricted categorical (special purpose) support. Examples are Special Education, Economic Impact Aid, and GATE (Gifted and Talented Education). The amount of categorical aid usually depends on the characteristics of the children and families who live within the district. It almost always must be spent for specific purposes, although some funding does come in the form of a block grant in which the district can decide how to spend the money.

Changes in enrollment have an impact both on total revenues and on the expenditure decisions driven by enrollment, such as the number of classes and total staff. Under current law, growing districts with comparatively high spending levels do not receive their full revenue limit allocation for each one of the added pupils. Instead, each additional student generates no more than 105% of the statewide average revenue limit income for the type of district. This may be much less than the district's regular revenue limit per student.

Interdistrict transfers affect enrollment. Students can transfer from one district to another, sometimes only with the agreement of both districts. The reasons may be for "hardship," child care, or to attend school in the district of their parent's employment. Two 1993 laws encourage choice among schools or between school districts if the school or district has space. Interdistrict transfers mean a loss of income for the home district and an increase for the receiving one. Funds are provided to the district the student attends.

Districts have no control over their revenue limit and limited control of their categorical income. They may decide whether or not to apply for such optional programs as GATE, but the dollar amounts are set by the state. Further, lottery payments, which depend on sales of lottery tickets, are an unpredictable source of revenue.

The one area of revenue flexibility is in local miscellaneous income, through the rental or lease of excess property, interest, contributions, or parcel taxes (not property taxes). The latter require approval by two-thirds of the votes cast, which is hard to achieve. The legislature periodically considers changing the requirements to a majority vote.

Because of the limitations on miscellaneous income, most districts must budget to work within their anticipated revenue limit and categorical income.

ESTIMATING EXPENDITURES
BEGINS WITH PERSONNEL

Typically, about 85% of a district's General Fund is spent for staff salaries and benefits. Therefore, accurate projections of staffing needs and probable turnover are crucial.

The district must decide by March 15 how many teachers and other certificated personnel it will need for the next school year. Notice of intent not to rehire must be posted by that date. Teachers may be laid off only because of reduction of service or program, not because of fewer students or budget shortfalls. The only exception is a short window of time after enactment of the state Budget Act when a district may terminate teachers if its revenue limit per student has not increased by 2%.

The salary portion of the budget can be controlled somewhat by not replacing employees who retire or resign or by not rehiring temporary employees.

Collective bargaining between the district and its employee organizations has a critical impact on the budget. Negotiations on salaries, benefits, and specified working conditions are mandated if employees form a bargaining unit — as has happened in almost all districts.

Contract agreements for salaries and benefits directly affect the budget. Other aspects of the contract — for example, maximum class size, preparation periods, and days off — are also important to the budget.

Negotiations with employee organizations often overlap with the budget process. Projections of expenditures and ending balance are tentative until all issues are resolved and the contracts signed. Current law calls for public input before the negotiations begin and public disclosure of the financial implications of a settlement before approval by the board.

In addition to the costs of personnel, other major constraints in a school district's budget (requirements from the Education Code, for example) are listed in Figure 8. Much of the line item General Fund expenditure budget is easily predictable because of contractual obligations, state regulations, and inflationary increases to fixed costs (especially benefits).

How the resources — particularly personnel — are deployed is the budget link to the educational program.

Figure 8 **Examples of Budget Constraints**

Personnel
- Placement of current staff on salary schedules
- Benefits mandated by law (such as retirement, disability and unemployment insurance, workers compensation, Social Security)
- Rules about seniority and job security (March 15 layoff deadline)
- Regulations about class size or administrative ratios
- Contracted services

Programs
- Costs of special programs
- Restrictions on how categorical funds may be spent (such as the requirement in some categoricals that 85% of the funds be spent on direct services for pupils)
- Mandatory contributions to categorical programs (especially Special Education)
- Other federal or state regulations (such as providing meals to needy children)

Fixed Costs
- Utilities, insurance

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LINKS TO EDUCATIONAL DECISIONS

All of the information about probable revenues and planned expenditures must be gathered before the first draft of the budget can be prepared. These tentative numbers should reflect the district's policies or statements of educational philosophy.

Some examples are:

- setting staffing ratios (class size, number of secretaries or custodians per school, etc.)
- allocating supplies or operating expenses according to enrollment or program or site
- requiring that categorical programs be self-supporting
- setting a minimum level of reserves
- prioritizing reductions or enhancements

The policies can be traced through program budgets, where the educational impact becomes clear. For example, a decision to maintain current staff ratios when enrollment increases will require hiring additional teachers and perhaps aides. An expansion of summer school or an increase in the number of mandatory classes or graduation requirements may also require more staff. A shift to a year-round school calendar may require different assignment of personnel.

A desirable educational decision can have unexpected high costs. For instance, expanding the number of electives in a high school could mean lower average class sizes and therefore the need for more staff. It could even result in an extra period or two in the day, with the need for additional supervision of students who are not in class as well as money and time for more complicated scheduling.

The budget can be affected by responses to community priorities. Some examples are to provide a school crossing guard at every site for two hours daily, or to ensure that no child will have a bus ride longer than 45 minutes, or to heat a pool so the swim team can practice three times a week for nine months. A request for twice-weekly washing of each chalkboard, or for a bulletin board in each room at Open House, will have a financial impact.

The size of a district greatly affects the complexity of the budget and the clarity of its links to the educational program. Almost 500 districts in California have fewer than 1,000 students; their options for budget reductions or program expansion are limited and visible. By contrast, substantial shifts can be made in personnel, classes, and other activities in large districts without apparent impact on the General Fund budget.

Although the school board may change policies at any time, the impact on the budget may not be felt until the next budget cycle.

In the meantime, programs can sometimes be changed with little or no dollar consequence by reassigning existing staff to new responsibilities. This sort of creative management cannot easily be discerned from reading the budget.

SCHOOL SITE BUDGETING

Some school districts add a step to the budget process by providing each school with discretionary funds. The amount can be small or substantial, and the ability of the school to decide how to spend it can be broad or be constrained by district regulations.

Although decisions must be made within the context of the district's guidelines and contractual obligations, site budgeting can give a school some flexibility to respond to local circumstances and community preferences.

Typical site expenditures could be for special curriculum materials, staff development, school assemblies or field trips, or additional equipment. A long-standing example of site budgeting is in schools with School Improvement Program (SIP) funds. They are required to maintain a school site council composed of teachers, parents, and, in high schools, students. The council plans its program, budgets the money, and evaluates progress toward the objectives of their plan.

When the district turns over a significant amount of money to its schools, the spending priorities are often set by a committee of teachers, and perhaps other staff, parents, and community, working with the principal. In those cases — assuming the district has also granted latitude in decision making authority — a school has the opportunity to decide that it needs an additional teacher or specialist, that it wants to focus on some aspect of the physical plant, or that an investment in technology is its priority. These decisions are complex, especially when they involve personnel; they require an understanding of state and federal regulations and of basic school finance. The process of making the important decisions means that those involved must be trained in decision making and planning as well as in technical subjects.

Districts that delegate some authority to school sites usually use a formula to ensure that schools are treated equitably. The parameters can include school size (enrollment and square footage), staff seniority, and special circumstances.

Most charter schools in California come close to true school site budgeting, since they are responsible for their entire budget even when they are still linked with the district office. Even those that retain the salary schedules and other employee benefits offered in the district have the flexibility to tailor expenditures to the needs of their particular students.

"Site budgeting" has had a checkered history as waves of reform washed over schools. Some of these were planning devices, while others were attempts to account for costs.

The limited success of these programs in California is due in part to districts' lack of control over their revenues, which are almost entirely determined at the state or federal level. Control over expenditures is also limited by built-in fixed costs, particularly contracts with employees. Suggestions for ways to maneuver within the system include giving sites authority over funds for utilities and for substitute teachers, allowing a site to "buy" services from the district or from alternative sources, giving personnel dollars in a lump sum, or permitting a school to acquire instruction (such as language) from community sources.

Finding ways to increase local authority — and buy in — is a trend currently gathering steam. The CDE's new standardized account code structure includes (but does not mandate) the option of collecting and reporting expenditures at the school level. Keeping such data will be helpful for site budgeting.

The superintendent and school board retain the responsibility of deciding how much discretion a school will have over its finances, staffing, and purchasing, both in terms of amount of money and of guidelines over its use.

MONITORING THE BUDGET
A SCHOOL BOARD RESPONSIBILITY

In addition to making sure that the district's budget reflects its educational priorities, the school board is responsible for monitoring ongoing financial reports in order to avoid unpleasant surprises. According to law, districts must review their anticipated revenues against projected expenses twice a year and certify that they will be able to meet their obligations. This requires updates on personnel and ADA as well as accurate year-to-date accounting, projections of future expenses, and careful planning for the probable flow of cash.

If districts cannot give a positive certification, the County Superintendent must intercede with a viable financial plan and may even take control of district decisions.

Very little possibility for change exists in the budget during the year, especially on the revenue side. Although unanticipated increases do occur, adverse events are more likely than the occasional windfall.

For example:

- Sometimes the legislative appropriations are insufficient to cover the cost of a program. Shortfalls, or deficits, have regularly occurred in Special Education, transportation, and recently in the allocations for districts' revenue limit (general purpose) income.
- A retroactive mid-year settlement of employee contracts can greatly increase a district's expenses.
- Failing to monitor the number of students in schools compared to budget estimates of average daily attendance (ADA) can result in significant losses of revenue. Counts of students are used to calculate income from revenue limit, lottery, School Improvement Program, etc.
- Cutting expenditures during the school year is quite difficult, because much of the budget is encumbered due to contractual obligations to employees. Staff can be expanded when needed but rarely can be reduced midyear.

Having an adequate reserve for economic uncertainties is important in such circumstances. Regulations control when unbudgeted expenditures can be made and how money can be transferred among accounts and/or into the General Fund. Regulations also govern what districts may do when they are temporarily short of cash (in the beginning of the year, for example). Some districts use "tax revenue anticipation notes" (TRANs) to solve temporary cash flow problems.

In the past ten years, seven districts, including several large ones, have discovered they were not able to meet their contractual and other obligations. They have required emergency financial support, which takes special action by the Legislature.

When a loan is necessary, the Superintendent of Public Instruction takes control of the district, appointing a trustee to make decisions and to establish a financial recovery plan and sound fiscal practices. The state Controller performs an audit and receives regular reports. In most cases when a loan is required, the governing board serves only in an advisory capacity until a recovery plan is under way.

Less drastic help is available through the state-funded team called FCMAT (Fiscal Crisis and Management Assistance Team). Based in the Kern County Office of Education, FCMAT offers on-site and on-line help for districts with financial problems or other needs. They maintain an electronic bulletin board service that includes libraries of CDE advisories, software for financial reports, and a place for questions-and-answers. Their site on the World Wide Web (http://www.kern.org/fcmat) is an increasingly rich resource for material and assistance. The CDE can be reached at http://goldmine.cde.ca.gov.

THE AVERAGE DISTRICT

Revenue limit income is the largest part of the General Fund in school districts. All districts also receive some specialized support from the state or federal government, usually to fund special programs. Districts with concentrations of low-income families or other special circumstances receive more of this aid, in some cases approaching half of their income.

Over 50 districts have revenue limit income entirely made up from their share of the local property tax; the state pays them only the $120 per pupil basic aid mandated in the California Constitution. In these "basic aid" districts, property tax income actually exceeds their revenue limit; under current law they may keep the excess. Despite legislative efforts to reduce disparities in revenue limits, a district may find that its neighboring districts have quite different amounts of money to spend.

The statewide average expenditures in elementary (kindergarten through grade 8), high school (grades 9 through 12), and unified districts (K-12) are shown in Figure 9. However, given the large geographical area, ethnic diversity, and differences in resources across the state, no district exactly matches the average.

A district's financial condition is greatly affected by its historical expenditure pattern, its enrollment projections, and its location. Districts in the Sierras or other mountainous areas need to commit substantial money to transporting their students, while those in hot valleys or deserts need air conditioning. Those districts with year-round schools may also need air conditioning. A number of districts are under court order to maintain desegregation programs. Many schools are overcrowded. Many districts are growing, while others may still have unused buildings or sites. Recognizing these special conditions is important in understanding each school district's budget.

Figure 9 Average Expenditures per ADA 1994-95

	Elementary Districts		High School Districts		Unified Districts	
Total Number of Students, Average Daily Attendance (ADA)	**1,086,878**		**431,165**		**3,616,269**	
Expenditures						
Certificated Salaries	$ 2,062.60	51.74%	$ 2,280.38	48.34%	$ 2,269.82	51.69%
Classified Salaries	621.79	15.60%	753.81	15.98%	709.63	16.16%
Benefits	669.21	16.79%	784.37	16.63%	721.43	16.43%
Subtotal, Personnel	3,353.60	84.13%	3,818.56	80.95%	3,700.88	84.28%
Books and Supplies	165.69	4.16%	188.06	3.99%	170.30	3.88%
Services, Other Operating Exp.	329.77	8.27%	430.37	9.12%	371.13	8.45%
Capital Outlay	78.94	1.98%	102.36	2.17%	89.89	2.05%
Other Outgo, Transfers	58.19	1.46%	177.81	3.77%	58.69	1.34%
Total Expenditures per ADA	$ 3,986.19	100.00%	$ 4,717.15	100.00%	$ 4,390.89	100.00%
Ending Balance per ADA	$ 472.15	11.84%	$ 386.67	8.20%	$ 405.84	9.24%

Source: School Services of California, Inc.

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ANALYZING A BUDGET

Many different constituencies in a school district are interested in analyzing the budget in order to know how the resources are allocated or where changes might be made. The effort to understand a district's budget can begin with an examination of the General Fund over several years and a comparison to other districts of similar size and socioeconomic conditions. As of fall 1996, data (and guidance about finding comparable districts) is available on the World Wide Web at http://www.ed-data.k12.ca.us.

A lot of information is readily available on the standard forms that all districts use. The following list suggests points to note in making comparisons.

Enrollments

- by grade and by school over time

Revenues

- sources
- whether any sources are unusually large or small (categoricals, grants, contributions) or one-time income
- revenue limit as percent of income

Expenditures

- percent in salaries, benefits
- percent in administration
- amount in contracted services
- projected liability for retiree benefits
- unusual maintenance needs

Reserves

- designated, undesignated
- transfers to and from the General Fund
- whether the district is spending more than it is receiving, using savings to balance the budget
- the amount of encroachment by both mandated and optional services
- adequacy of self-insurance funds

Trends

- estimating errors over time on ADA, income, overall costs, personnel
- detecting chronic over-budgeting on some expenditures, under-budgeting on revenues (or vice versa)
- determining the fastest growing expenditure area over time.

Questions to Ask

The budget forms and accompanying narrative do not, however, include all the information which is useful in analyzing the budget. Sample questions to ask the board, superintendent, or business manager are:

Personnel

- Has the district settled collective bargaining?
- What are the ages of the certificated/classified staff?
- What are average salaries for teachers, pupil support services, classified employees, administrators?
- What is the enrollment per full-time employee in each of those areas?
- Does a large district have a detailed statement about the number of employee positions?

Income

- Does the district have income from grants or contributions? How much and how is it used?
- Does a small district have, or is it investigating, joint ventures or shared services?
- Has a private foundation been formed to receive contributions? What is its relationship with the governing board?
- How are assets managed?
- Have voters approved parcel taxes or the sale of bonds?

Expenditures

- How has variable revenue (from the lottery, for example) been spent?
- Where are increases budgeted?
- How much of new expenditures are due to negotiated increases, salary schedule moves, mandated benefits? To salary increases to administrators?
- Which expenditures are discretionary (to maintain class size, expand courses or services)?
- Have apparent decreases become increases in other categories?
- Are expenditures on categorical services exceeding revenues? If so, why?
- Which programs have grown faster than revenues?

Other

- Do the budgets for separate funds include indirect costs?
- What is the building program or need for space or renovation?
- What is the district's program for upgrading (or acquiring) technology?
- What accounts for striking differences from other districts?
- Are expenditure differences related to program delivery? If not, then what?

The answers to these questions provide a solid background for understanding the philosophy and the reality behind the district's budget.

REGIONAL RELATIONSHIPS CAN HAVE FINANCIAL IMPACTS

It takes an experienced budget reader to uncover the relationships that districts have with each other and with their County Office of Education. Many regional programs for students are operated by the county, notably Special Education cooperatives, Regional Occupation Centers, and juvenile court schools.

County offices provide a variety of services directly to districts of small size, at minimal or no cost. Often they act as the fiscal agent for very small districts whose business offices consist of a bookkeeper.

Sometimes smaller districts share operations, such as joint ventures for purchasing, business services, or insurance pools. Even when these activities or relationships with the county are not budget items, they affect efficiency by reducing costs or improving services in school districts.

Although no longer able to set the local property tax rate, school boards have other ways of interacting with their local communities that can affect the financial health of their districts. They also can have helpful relationships with redevelopment agencies, city councils, other levels of government, and the private sector.

LONG RANGE PLANNING

Forecasting, the step that ties past budget decisions to the future, is essential to building and managing school district budgets. The state now requires school districts to look ahead as part of the financial accountability system.

Important assumptions underlie the budget numbers. These assumptions must be determined before projections can be made with any degree of certainty.

The initial part of long range budgeting is the collection of data to help project expected enrollment. Some of the necessary pieces are:

- birth statistics
- past trends in the relationship between local births and kindergarten enrollment or between elementary and high school enrollments
- migration trends and transiency
- housing data, new residential and commercial developments
- the local history of public vs. private school enrollments
- the district's pattern of mobility or dropout grade by grade

Other assumptions which must be decided include:

- class size (contractual or optimal for planning)
- other staffing and staffing ratios
- administrative structure
- need for facilities
- capital outlay or major maintenance needs
- special projects or programs (for example, desegregation or bilingual education)
- mandated curriculum changes or new textbooks
- economic conditions (probable COLAs, inflation)
- optimal level of reserves

Some of these are best guesses. Projecting revenues is particularly uncertain. Most of the increase comes from the COLA (if any) which is not known until the state's budget is passed each summer. Other assumptions are strictly local policy decisions. Known fixed costs, such as in existing multiyear contracts with employees, must also be built in.

When the numbers have been gathered and the assumptions made, the projections are prepared. A computer can be programmed to answer questions, such as what is the effect over several years of a 6% salary increase and a 3% COLA, a 3% salary increase, and/or escalating costs of insurance benefits? How many new students are needed before a teacher can be hired? What is the cost of reducing class size? How much can be saved by reducing the PE requirement? What is the cost of revamping the math program?

Looking at the outcome of the alternative scenarios developed from the assumptions and the different effects of the "what-if" questions, the board and superintendent can discuss options and set priorities. Figure 10 gives an example of the ingredients which make up a district's planning document.

If planning has always been valuable, it is critical to today's school districts. It requires thinking ahead, coordinating, and establishing standards for future performance, in addition to providing an early warning of fiscal insolvency and a guideline for negotiations. Ideally the components of the budget and the assumptions behind the projections are closely linked to the district's strategic vision with priorities for both growth and, if necessary, contraction.

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Figure 10 A Sample Financial Projection

	Est. Actual 1994-95	Budget 1995-96	Projected 1996-97	Projected 1997-98	Projected 1998-99	Projected 1999-2000
Assumptions						
Enrollment	900	931	963	957	976	980
Student/Faculty Ratio	18.33	18.90	19.16	19.04	19.04	19.12
Staffing (FTE)-Certificated	49.09	49.25	50.25	50.25	51.25	51.25
Administration	3.00	3.00	3.00	3.00	3.00	3.00
Office Staff	8.55	8.55	8.55	8.55	8.55	8.55
Maintenance & Operations	8.00	8.00	8.00	8.00	8.00	8.00
Revenue Limit per Student (ADA)	$ 3,982	$ 4,063	$ 4,144	$ 4,227	$ 4,314	$ 4,400
Growth Revenue Limit	$ 3,102	$ 3,189	$ 3,252	$ 3,318	$ 3,384	$ 3,452
Increase in Revenue Limit	-0.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Interest on Revenues	5%	5%	5%	5%	5%	5%
Lottery Income per Student (ADA)	$ 116	$ 105	$ 105	$ 105	$ 105	$ 105
Rental Income Increase		2%	3%	3%	3%	3%
Salary Increase						
Certificated	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Others	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Projections						
REVENUES						
Revenue Limit	$ 3,653,639	$ 3,817,392	$ 3,988,500	$ 4,162,800	$ 4,348,100	$ 4,539,600
State Categorical	94,355	102,248	102,200	102,200	102,200	102,200
Other State/Fed/Local	462,849	480,378	435,100	435,100	435,100	435,100
Rental Income	282,195	429,410	451,600	466,600	481,400	496,400
Foundation Grants	150,000	200,000	200,000	200,000	200,000	200,000
Lottery Income	105,075	102,120	99,800	101,100	100,500	101,500
Interest Income	25,035	30,000	30,000	30,000	30,000	30,000
Parcel Tax			392,000	392,000	392,000	392,000
TOTAL INCOME	$ 4,773,148	$ 5,161,548	$ 5,699,200	$ 5,889,800	$ 6,089,300	$ 6,296,800
% Change from Prior Year	-2.13%	8.14%	10.42%	3.34%	3.39%	3.41%
EXPENDITURES (General Fund)						
Certificated Salaries (1000)	$ 2,688,093	$ 2,717,321	$ 2,782,400	$ 2,842,900	$ 2,941,900	$ 3,003,900
Classified Salaries (2000)	719,265	736,893	743,500	751,700	755,500	758,000
Salary Increase 2%		76,000	77,600	79,000	81,200	82,600
Fringe Expense as % of Salary	20.66%	21.53%	21.55%	21.38%	21.20%	21.05%
Benefits (3000)	703,903	743,611	759,800	768,400	784,000	792,000
Instructional Supplies (4000)	194,025	217,856	221,900	225,900	230,500	235,600
All Other (5000)	719,865	660,620	683,000	692,000	709,000	718,000
Capital Outlay (6000)	77,435	38,602	128,500	129,000	129,500	130,200
TOTAL EXPENDITURES	$ 5,102,586	$ 5,190,903	$ 5,396,700	$ 5,488,900	$ 5,631,600	$ 5,720,300
% Change from Prior Year	9.02%	1.73%	3.96%	1.71%	2.60%	1.58%
Change in General Fund Reserves	-$ 329,438	-$ 29,355	$ 302,500	$ 400,900	$ 457,700	$ 576,500
Beginning Balance General Fund	347,244	17,806	-11,549	290,951	691,851	1,149,551
General Fund Reserve	17,806	-11,549	290,951	691,851	1,149,551	1,726,051
Special Reserve plus Interest	450,506	490,506	520,506	550,506	585,506	625,506
TOTAL ENDING BALANCE	$ 468,312	$ 478,957	$ 811,457	$ 1,242,357	$ 1,735,057	$ 2,351,557
Reserve as % of Revenue	9.81%	9.28%	14.24%	21.09%	28.49%	37.35%

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The Structure of State Finance

The state's budget is, like that of any large country, tightly tied to the economy — and to the numbers of people and institutions it serves. This dependence hit a crisis point in the early 1990s when revenues sagged behind ballooning expenditures. The situation is particularly crucial for public education because it derives over two-thirds of its support through the state's budget.

The positive economic growth of the late 1980s slowed abruptly in the early 1990s, a result of the cyclical downturn that defines recession. Severe structural problems in the state's budget became apparent as the population and the numbers of students and adults served by state funds grew faster than anticipated for longer than expected. The erosion in the revenue base since the 1986 legislation to conform state income taxes to federal changes, particularly in capital gains, compounded the situation further.

Added constraints came from constitutional initiatives and a series of natural disasters such as earthquakes and the drought. The budget dilemmas seem to be ongoing in that elusive period, the best of times, or in the worst of times, such as 1991.

The impact on education of the state's fiscal condition is immediate: schools are in stress, if not distress, with diminishing revenues per pupil but growing needs, a shaky infrastructure, and almost no local recourse to the state-directed system. This is shocking to the education community after the euphoria caused by the passage of Proposition 98. Even the lottery is letting them down.

This paper examines

- the state finance dilemma: what controls revenues, what drives expenditures, and their interactions
- the workings of the state's budget: its components and links to education
- the budget process: the timetable and players
- some solutions for stability for the state and for schools
- the longer view and open issues.

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Clarifying Complex Education Issues

INSIDE THIS ISSUE

The State Finance Dilemma	2
Reduced Revenues	2
Expenditure Growth	3
Interactions: Gann Limit and Proposition 111	5
Components of the State's Budget	6
Revenues	6
Expenditures	7
The Overall Picture	8
The Budget Process	8
Some Solutions for Stability	9
For the State	9
For Schools	10
Taking the Longer View	11
The Timeline	11
Structural Change	11
Conclusion	12

The State Finance Dilemma

An unfortunate conjunction of adverse economic conditions and structural factors drove California's state budget to a record deficit by the end of the 1990-91 fiscal year.

The opportunities for solving the complex problems range from the unpleasant options of levying higher taxes to cutting back further on the services that are supported by the state. Education is particularly sensitive to the decisions because of its dependence on state financing.

EdSource Staff

Barbara R. Levin
Executive Director

Penny Howell
Associate Director, Editor

Barbara Miller
Research Director

Katie Mason
Fiscal Associate

Mary Ann Gardner
Administrative Associate

Peg Austin
Administrative Assistant

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REDUCED REVENUES

The money flowing into the state's coffers has been unusually volatile for the past several years. As less revenue than expected came in, deficits piled up as quickly as they disappear during expansion. The reasons for the shifts range from the flattening of the economy to some alterations in federal income tax laws and state tax policy.

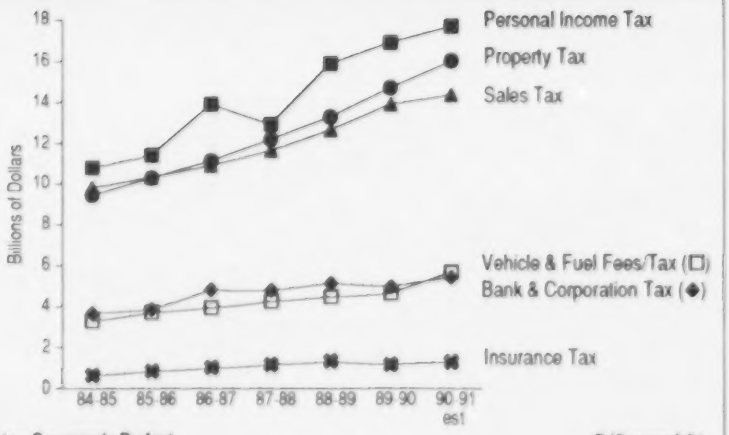
The changes in the six largest revenue sources are shown in Figure 1. Bank and corporation and insurance taxes have been relatively stagnant, while most others continue to grow steadily. The jump in vehicle fuel tax and fees is due to a tax increase approved by voters.

Income tax payments generate the most revenues for the state. The irregularity in this source is because of the failure to predict capital gains accurately as well as, of course, contractions in the economy. One-third of sales tax revenue comes from service stations and the sale of motor vehicles and building materials, all of which react quickly to a downturn.

The uneven growth in four much smaller revenue sources is shown in Figure 2. One of these, tobacco, was affected by voter-approved tax increases.

Overly optimistic revenue projections can wreak havoc with the budgeting process. The remedies to revenue shortfalls are usually unpalatable, politically at least, and difficult to arrange. The voting requirements for raising taxes are stiff enough to cause a great deal of legislative negotiation. For example, a two-thirds vote of

Figure 1.
Trends in State Revenues



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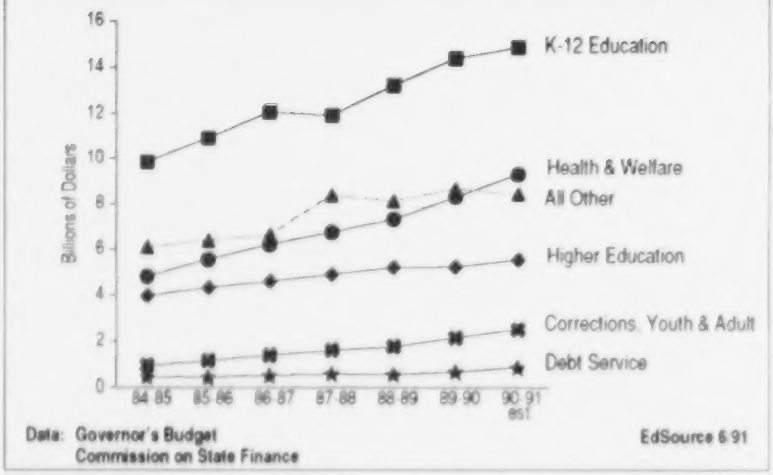
the Legislature is required for a tax increase.

Almost all the action is, of necessity, at the state level. **Proposition 13**, heartily approved by voters in 1978, set strict limits on the amount of property taxes that can be levied. This means far fewer options for local entities, including schools, that are supported by property taxes.

According to this constitutional amendment, the maximum property tax is 1% of assessed value, defined as the 1975-76 value plus a maximum of a 2% annual inflation increase or the purchase price upon sale. Local voters are denied the opportunity to levy *ad valorem* taxes in excess of the 1% rate (except when bonds are approved). Parcel tax increases also need a two-thirds vote.

The growing concern about Proposition 13 focuses mainly on the unequal collection of taxes on similar, neighboring properties. The California Supreme Court has refused to hear three cases on the subject, but in late spring 1991 the U.S. Supreme Court accepted a suit brought by Macy's against Contra Costa County. The argument questioned the revaluation of a property at a change of ownership. Although that suit was subsequently withdrawn, another case from an individual homeowner is on appeal to the U.S. Court.

Figure 3.
Trends in State Expenditures



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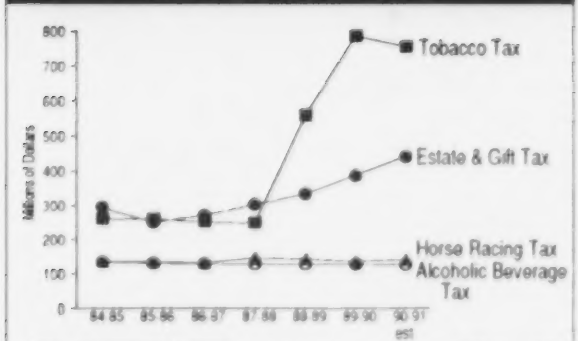
These two events stimulated a proposal by the Senate Commission on Property Tax Equity to restore equity in the valuation of comparable houses or businesses. The eventual effect on revenues is unknown; it is unlikely that property tax levies would become higher instead of lower. Efforts to repeal Proposition 13 have gone nowhere.

The dependence of education on state-collected revenues is likely to continue.

Figure 2.
Smaller State Revenue Sources



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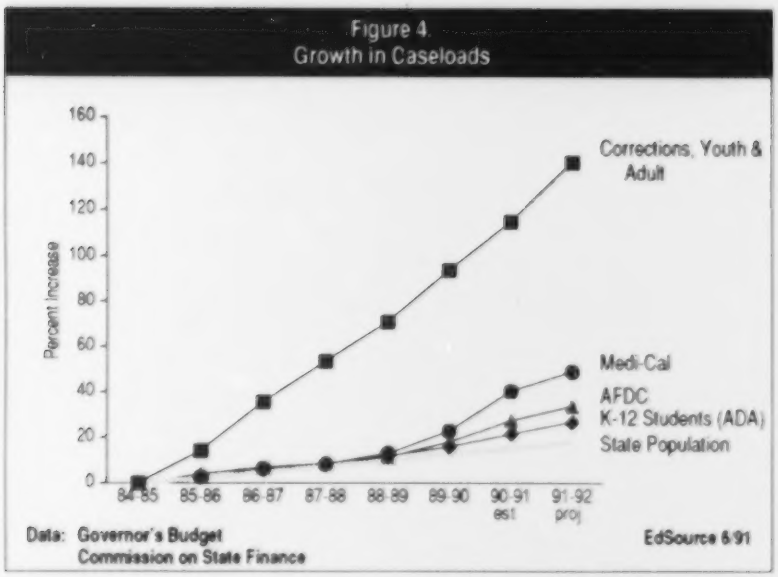
EXPENDITURE GROWTH

The finance dilemma can be put succinctly: state revenues are increasing 8% annually while demand for expenditures is growing at an average of 13%.

The expansion in the largest General Fund expenditures is charted in Figure 3. The pressure comes from multiple points: population growth in the state and in schools and the numbers of people who qualify for assistance or for services supported by the state, statutory entitlements, and the constitutional requirements of Proposition 98.



Caseloads

The number of recipients of Aid to Families with Dependent Children (AFDC) has grown 34% since 1984-85. Since this group qualifies automatically for Medi-Cal, those expenditures too have shot up. Assistance for low-income disabled people has grown by 41% during the same period because of expanded eligibility as well as population growth. All Medi-Cal expenses have increased by 49% from a combination of cost increases and newly eligible patients. Figure 4 summarizes the percentage growth in caseloads.

Due partly to policy changes about the scope of crimes and length of sentences, the prison population has risen an average 13% in each of the past seven years, for an annual budget increase of almost 17%. The number of inmates doubled between 1985-86 and 1990-91, and parolees almost tripled. This has forced higher debt service too, since one-quarter of the general obligation bonds approved since June 1984 were for new state prisons and county jail facilities.

The number of children attending school in California has skyrocketed. Earlier projections of an annual increase of 100,000 escalated to well over 200,000 new students in each of the past two years. This boom puts pressure not only on per pupil funding and classroom space, but also on the need for more teachers.

Statutory Entitlements

A second demand on expenditures comes from automatic increases. For example, current law specifies cost-of-living adjustments (COLAs) for many programs, mostly education, health and welfare. The Legislature frequently votes different COLAs "in lieu" of the law in the Budget Act. This requires a two-thirds vote, while appropriations for education need only a majority.

Proposition 98

The greatest potential effect on expenditures arises from the minimum funding level set by **Proposition 98** because it claims such a high proportion of the state's budget. Narrowly approved by voters in November 1988, this constitutional amendment guarantees that K-14 education will receive the larger of about 40% of the state's General Fund budget (Test 1) or its prior year base adjusted for per capita personal income and any enrollment increase (Test 2).

Test 3, added by Proposition 111 in June 1990, says that if per capita General Fund revenues grow more slowly than per capita personal income, the Proposition 98 adjustment will equal the growth in per capita General Fund revenues plus half a percent plus enrollment increases. The difference between that amount and what education would have received is to be restored in years of stronger state revenue growth.

In addition to that third test, another loophole weakens the guarantee. The Legislature can vote to suspend Proposition 98, for example, during a financial crisis. The first time that suspension became a possibility, although it didn't happen, was during deliberations about the 1990-91 budget. Suspension came even closer to being reality for the 1991-92

budget. It was avoided at the last minute through creative budgeting by counting some 1990-91 appropriations toward the 1991-92 pot.

Proposition 98 also requires, without more specific guidelines, that the state maintain

The underlying key issue is that state finance has a structural problem — a built-in imbalance between revenues and expenditures. . .

"prudent" budget reserves. Recently this has been considered 3% of (an ever-growing) budget.

Trigger for Budget Cuts

As a response to the possibility that an upcoming recession would cause a budget crunch, in 1990 the Legislature passed the state's version of Gramm-Rudman. If the workload budget appears to be greater than projected revenues plus 1/2%, the trigger specifies that General Fund expenditures must be reduced across the board, up to a maximum 4% cut. Exceptions (equaling about 42% of the General Fund) include only those in the Constitution, specifically K-14 education, debt service, and homeowners' exemptions.

This provision can also be suspended by a two-thirds vote of the Legislature, with the Governor's signature. One of its effects is that statutory COLAs can be automatically cut without the necessity of a two-thirds legislative vote.

A driving force behind the trigger and the provisions for suspending it and Proposition 98 is that, according to the California Constitution, the Governor must propose a budget in which expenditures, including the reserve, do not exceed anticipated revenues.

All these mechanisms are complex, and they are interrelated. The underlying key issue is that state finance has a structural problem — a built-in imbalance between revenues and expenditures — that is bigger and more serious than occasional cyclical shortfalls.

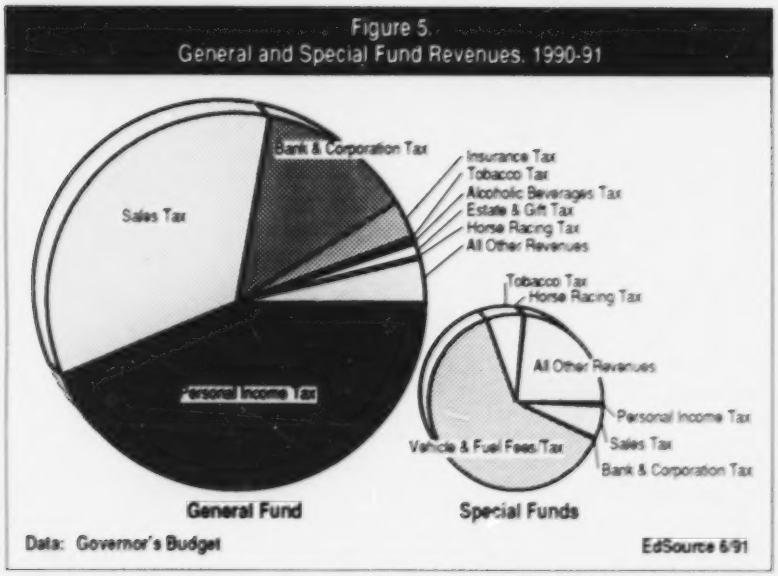
INTERACTIONS: GANN LIMIT AND PROPOSITION 111

The budgeting process is complicated by additional constitutional requirements. In November 1979 voters approved another constitutional amendment, known as the **Gann limit**, to restrict appropriations from tax proceeds. Proposition 4 also specified that any tax receipts in excess of the appropriations limitation must be returned to taxpayers — an event that did happen in 1986.

Subsequently the Legislature became quite imaginative in inventing how to adjust the calculation of the Gann limit in order to avoid a repeat of 1986. A rebate never will occur in the same way because **Proposition 111**, June 1990, changed the original provision to read that taxes in excess of the limit must be split evenly between K-14 education and taxpayers. And now the Governor can declare an emergency in order to levy and spend a special tax beyond the limit in case of attack, fire, flood, drought, storm, civil disorder, earthquake, or volcanic eruption.

More important, Proposition 111 expanded the possibilities for growth in the state's Gann limit. The inflation factor is now California's per capita personal income (as opposed to the lesser of the U.S. CPI or California per capita personal income). K-14 enrollment increases are added to the definition of the change in the state's population. A two-year average can be used to confirm that revenues in fact exceed the limit.

As a result, the bipartisan Commission on State Finance predicted in the fall of 1990 that the Gann limit will not be a "binding constraint" on state spending through 2000. This was before the great deficit of 1991 became apparent. Suddenly the state faced the prospect of needing to raise billions of dollars in additional taxes in order to meet expenditures — and thereby came very close to its Gann limit. Any taxes in excess of the limit could not be spent at the Legislature's discretion but rather would go to education and back to taxpayers.



Components of the State's Budget

REVENUES

The state's revenue comes from taxes, fees and the sale of bonds. Over three-quarters of the income, from about 50 different sources, is in the General Fund. As shown in Figure 5, it includes

- **personal income taxes**, by far the largest amount at almost 44%. The income tax is progressive, with rates ranging from 1 to 9.3% or an alternative minimum tax. Since 1982 tax brackets have been indexed annually by the change in the Consumer Price Index (CPI). In recent years almost half of the income tax payments have come from the top 3% of taxpayers.

- **sales and use taxes**, about 34%. This tax is imposed on most retail sales except groceries or take-out food, prescription drugs, gas, electricity, water, candy and aircraft. Before the passage of the 1991-92 budget, the rate was from 6 to 6 1/2%, of which 4.75 cents was turned over to the state, 1 to 1.5 cents to cities and counties, and the remaining .25 cents to county transit systems. Voters may approve up to 1% additional sales tax in their counties; fewer than half of the counties levied some portion of this tax as of November 1990. A use tax is levied on goods, such as lumber, which are purchased outside the state but used here.

- **bank and corporation taxes**, about 13%. The franchise (for doing business in California) and business income tax rate is 9.3% of profits, and the rate for banks and financial institutions is an additional 1.44%.

- **miscellaneous other taxes** on insurance, tobacco, alcoholic beverages, horse racing, and estates.

The General Fund is the big pot of money from education's viewpoint. It is one of the criteria involved in Proposition 98's minimum funding level. Almost all of the state support for K-12 education comes from the General Fund.

About 15% of the state's total revenue goes into **Special Funds**. Two-thirds of Special Fund taxes, including some gasoline taxes, are related to motor vehicles.

Two percent of the state's revenues comes from the sale of **bonds**. A two-thirds vote of the Legislature is required before voters can be asked to approve "General Obligation" bonds; the state is obligated to repay these. "Revenue" bonds need be approved by only a majority of both houses of the Legislature.

Local **property taxes** are not counted as part of the state's revenues, although the amounts that are allocated to education have been included in the Governor's budget document ever since revenue limits were established for school districts in 1972. **Federal funds** — $21.5 billion in 1990-91 — also flow to California. Most of these are channeled to local governments, including school districts.

Other revenues, such as contributions to pensions, are collected by the state but are not included in the budget. These **nongovernmental** cost funds totalled $23.6 billion in 1990-91, a doubling since 1986-87. The lottery is a "nongovernmental trust and agency fund." Since individual winnings are exempt from state income taxes, the state's treasury does not benefit from the lottery; however, the portion of lottery receipts that goes to education is listed in the budget.

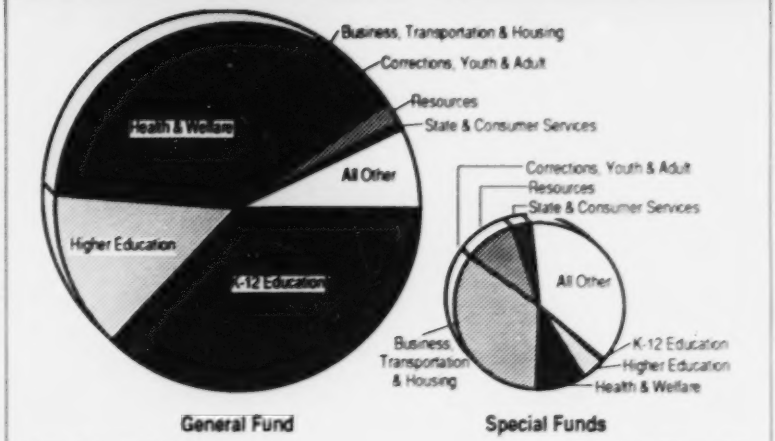
The state loses some revenues each year, often many billions of dollars. These **tax expenditures** are due to exemptions, exclusions, and other tax code policies. Most of this loss to the General Fund is from personal income tax exemptions and other allowable deductions.

More responsibilities, sometimes but not always accompanied by revenues, are being passed to county and city governments. For example, in 1991-92 counties will receive new revenues to assume major responsibilities for health and welfare programs. It is, therefore, increasingly important to consider the entire state and local revenue structure.

EXPENDITURES

Education, health and welfare use up just under three-quarters of the state's total expenditures. The rest is spent on highways and transportation, construction, and other state programs, including prisons.

Figure 6.
General and Special Fund Expenditures, 1990-91



Data: Governor's Budget

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General Fund

The General Fund is the so-called discretionary source for spending, because the taxes flowing into it are not restricted to particular expenditures. Just over half are spent on K-12 and higher education and about one-third on health and welfare programs.

The demands on the remaining 15% or so are considerable. These include reserves for economic uncertainty (recently about 3%), most of the expenditures for corrections, and the many other services listed in Figure 6. The level of support for all of these, whether or not mandated, is determined annually by the Governor and Legislature.

Special Funds

Special Funds are earmarked for expenditure on particular purposes, except that unexpended balances in some funds can be borrowed for other governmental uses and some interfund transfers can be made. Some overlap with the General Fund occurs, but the amounts are very different as the chart in Figure 6 shows.

Bond Funds

The principal and interest on **bonds** are paid from the General Fund, although about half of general obligation bonds are partially repaid by income from the project for which they were issued. The expenditure for bond debts increased dramatically, from $0.3 billion in 1983-84 to $1.15 billion projected for 1991-92; it is growing twice as fast as other General Fund costs.

Compared to other states, however, California has a low level of debt service and the second lowest debt per capita and as a percent of personal

income among the states rated Triple-A. Revenue bonds are totally repaid from the project, whether public or private.

THE OVERALL PICTURE

Three out of four public dollars are spent locally. Half comes from funds collected by the state government, and the other half is a mixture of local taxes and money from the federal government. A surprising one-third of the public funds spent in California comes from Washington. Over half of that is for unemployment benefits or welfare payments (AFDC), while most of the money for education is for colleges and universities.

The revenue-expenditure package is complex and naturally huge in a state that is now called the 6th largest economic power in the world. The grand total spent in 1990-91 is more than $100 billion. The chart in Figure 7 indicates the relative magnitudes and growth in the state's resources.

Notwithstanding the multiple expenditure sources, the primary public focus is on the General Fund in good and in bad times. Three-quarters of the General Fund is used for local assistance to individuals and for approximately 6,700 governmental entities, including schools, county offices of education and community colleges. It also provides the funds for the rather small amount of discretionary spending that is available to the Legislature and Governor.

The Budget Process

The calendar for making public finance policy decisions and for finally settling on a budget for the state is yearlong. The parameters for the process are spelled out in the state's Constitution: by January 10 the Governor must present his proposed budget for the fiscal year which begins the following July, and the Legislature must approve the budget on a two-thirds vote by midnight on June 15. The final result often includes major changes from the original proposal.

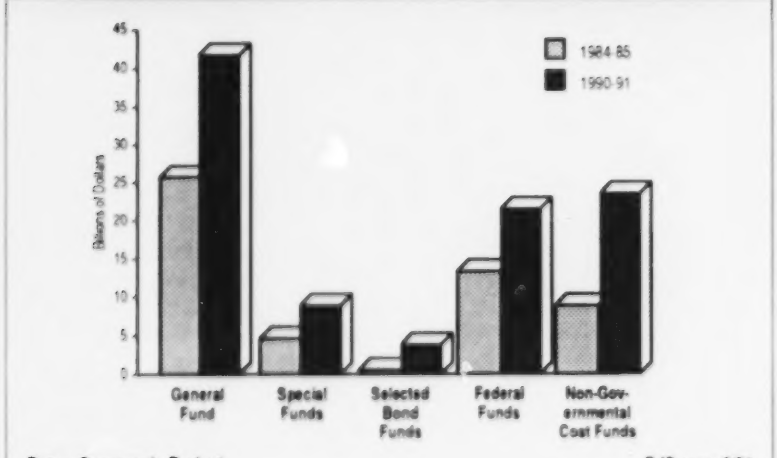
According to current law, the Governor must choose his deletions or vetoes by June 30, and the Legislature must decide within 60 days whether or not to override any vetoes. The deadline for gubernatorial signature, deletions or vetoes of follow-up legislation is twelve days after the receipt of a bill before the summer recess and thirty days after the recess.

This precise schedule is observed more in the breach than the practice. The proposed budget is always ready by January 10, as are the legislators who know they are entering into months of intense debate even in good years.

The chairs of the Senate's Budget and Fiscal Review Committee and the Assembly's Ways and Means Committee introduce budget bills. For many years the Legislative Analyst has produced an impartial analysis of the proposed budget, often recommending alternatives to the state's taxing structure or spending patterns.

The bipartisan Commission on State Finance releases quar-

Figure 7.
Total State Resources



Data: Governor's Budget

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terly updated projections of state revenues, expenditures, and the size of various service populations. A revised estimate of the amount of money and the costs the state will have by the end of the current fiscal year is provided in mid- to late May by the Department of Finance; it is referred to as the "May revise."

In a state known recently for nearly continuous citizen involvement in amending the Constitution, the voting public has little or no role in the final weeks of the budget cycle.

Eventually a conference committee, three Assembly members and three Senators, is appointed to resolve the differences between the two houses. Their compromise budget, hammered out virtually in private, must be approved by a two-thirds vote. The Governor can reduce or delete ("blue pencil") line items, but he cannot make increases. Budget vetoes are rarely overridden.

In years of strong dissension or, as in 1990 and 1991, financial crisis, the final votes are not taken until the new fiscal year has actually begun. Dire warnings about the inability of the state to meet state employees' payroll place special pressure on the Legislature to come to a budget resolution. Cleanup legislation, normally not involving much money, often follows in the summer.

In addition to the Governor, Legislature, and Legislative Analyst, the players in this complex and critical game include the major lobbyists (the California Teachers Association being one of the largest), Superintendent of Public Instruction Bill Honig, and a host of special interest groups. In a state known recently for nearly continuous citizen involvement in amending the Constitution, the voting public has little or no role in the final weeks of the budget cycle.

Some Solutions for Stability

FOR THE STATE

The complexity of California's financial and political structures ensures that many organizations and individuals will participate in proposing options for increasing state revenues when that becomes essential. Alternatives fit into the following categories:

- reducing tax expenditures or deductions, particularly in personal income and sales taxes
- expanding areas of taxation to include, for example, more services or Social Security benefits
- increasing taxes on sales or income, either permanently or through a trigger mechanism
- revising Proposition 13, for example to include a split roll in which business and industry pay higher taxes than homeowners
- removing income tax indexing. These latter two would require amending the California Constitution.

A companion effort is to find ways to trim governmental expenditures. New ideas surface periodically, usually in response to contraction — cost-cutting is not an appealing mode during expansion! Suggestions include

- the big one of suspending Proposition 98 to distribute the pain more fairly and to allow full discretion over how to spend additional revenues
- reducing services by containing medical caseloads or restricting higher education enrollments
- improving efficiency, such as automating the administration of welfare benefits
- shifting some funding to fees (such as for higher education) or user fees or to the private sector or counties (with concomitant funding or local taxing authority)
- investing in preventive measures, such as Governor Wilson's "Healthy Start" initiatives, to avoid large future costs

- redefining expenditures or the timing of tax collections.

None of the revenue-raising or expenditure-containing alternatives is politically popular with everyone, but Governor Wilson has won plaudits for his forthrightness in addressing the longer term issues. The Legislative Analyst has also posed suggestions annually; many coincide with, and perhaps sometimes stimulate, proposals floated by the Governor or key legislators.

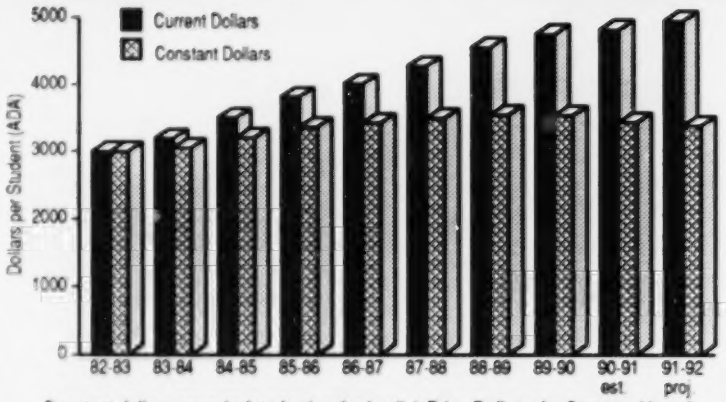
The magnitudes of the revenues that could be raised or expenditures that could be saved vary enormously. For example, eliminating funds for the Miller-Unruh reading program would save about $22 million and paroling prisoners near the ends of their terms could save $70 million, while charging sales tax on entertainment could raise $250 million and increasing the top income tax rate by 1% would raise $1.6 *billion* — in one year.

A multitude of other suggestions range from practical and manageable to ideal but unlikely. The solution to a fiscal crisis of the dimensions that developed by 1991 requires a combination of tax increases and expenditure cuts.

FOR SCHOOLS

K-12 education is trapped in a big bind. Even with the injection of some new funds from Senate Bill 813 in 1983 and then the funding guarantee in Proposition 98, inflation, enrollment growth, and the new student demographics put relentless pressure on schools. This is leading to a dangerous financial condition in an increasing number of districts.

Figure 8.
K-12 Education Funding per Student



Constant dollars are calculated using the Implicit Price Deflator for State and Local Government Purchases of Goods and Services with 1982-83 as the base year.

Data: Office of the Legislative Analyst — EdSource 6-91

Finding more revenues locally is currently a tenuous and unstable option. One option is charging for some activities, such as transportation. Fundraising can be difficult even in districts with affluent families or a concentration of businesses. A two-thirds vote is required to levy a parcel tax for general support or local general obligation bonds for construction. Achieving that vote has proven to be difficult in a time when relatively few families have children in school.

Lowering the local vote to majority is one proposal for relief. Schools could be empowered to levy an optional half-cent sales tax. Other ideas include local income tax surcharges. These suggestions would probably necessitate some form of equalization to ensure that districts or communities with low tax bases or less wealthy families have the same revenue-raising results as their more fortunate neighbors.

The bandaid or belt-tightening approach works only so long. A change in some of the laws applying to schools could allow more spending flexibility. An example would be the ability to suspend the provisions of employees' contracts or the regulations about seniority and tenure. Both of these edge closer to reality as more districts approach bankruptcy.

The chart in Figure 8 shows ten years of revenues for K-12 education in current dollars and in dollars adjusted for inflation. The real amount per pupil is actually declining. The adjust-

ment for these figures is traditionally based on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. If it were tied to the Consumer Price Index, the effect would be different because the CPI has tended to exceed the deflator in the past several years.

Taking the Longer View

THE TIMELINE

Ironically, the financial dilemma started with Governor Reagan in the late 1960s when the state enacted the largest tax increase in its history. The income tax rate rose, and the brackets were narrowed so the tax would be more progressive.

By the early 1970s inflation pushed many taxpayers into higher brackets. At the same time rising values drove up property taxes. An initial step toward containment in 1972 was the Legislature's capping the amount of property tax revenues that each school district could spend, known then and now as its "revenue limit."

By the late 1970s the escalating taxes led to a huge surplus, approaching $6 billion — notwithstanding high government spending. When the Legislature and Governor Jerry Brown did not respond quickly, voters approved Proposition 13 in 1978, and that took care of the surplus fairly quickly. The next step in the taxpayer revolt was the Gann limit, meant to be a further constraint on spending.

In the 1980s the state moved into an eight-year economic expansion. By the mid-1980s, however, the population was growing and so were caseloads; AFDC doubled during that time. The increasing pressure on the state's budget and a feeling that education was receiving insufficient support, especially after Proposition 13 and the Gann limit, were among the factors leading to Proposition 98. Proposition 111 only added to the complexity.

The compounding deficit that erupted into public view in 1991 was looming at the end of Governor Deukmejian's term. The cyclical changes in the economy that produced the spiral were out of the control of the new administration. The best that could be done was to plan how to attack the problem and, when breathing space opened up, how to minimize a similar impact in the future.

STRUCTURAL CHANGE

The big pitch from the Governor, Legislative Analyst, and many other officials centered on the structure underlying the budget crisis. This plight is in fact within the control of the government, since its driving formulae are based on previous legislation or definitions of "need." Examples are the qualifying criteria for welfare, in addition to the statutory levels of aid. Another example is the COLA, created by legislation, for state-supported programs.

Interestingly, COLAs are derived from several measures of inflation, including the CPI,

As voters have repeatedly demonstrated, amending the California Constitution is definitely feasible. Whether or not the political will exists . . . is quite another question.

per capita personal income, and the price deflator. Each of these generates a different number. Various constituencies refer to different measures — wage earners to the CPI and state finance policy makers to personal income (as in Gann adjustments). Education revenues are primarily linked to the deflator, although employees prefer to talk about the CPI. The discrepancies among these measures does cause confusion.

All the formulae and definitions are perfectly changeable. Even those in the Constitution can be adjusted. As voters have repeatedly demonstrated, amending the California Constitution is definitely feasible. Whether or not the political will exists to promote those changes and shepherd them through the process is quite another question.

Conclusion

The shock of a crisis or the pleasure of a surplus naturally stimulates the collective imagination of the government in Sacramento. Other issues are more diffuse and harder to address.

One of these is the dynamic nature of the state's population. The big growth areas are in immigrants, K-12 enrollment, the prison population, and senior citizens who depend on current wage earners for retirement benefits. Unemployment rose in the recession of the early 1990s, the homeless situation is not improving, and far too many children live in poverty and perhaps in poor health. At the same time a temporary decline in high school enrollments, and the continuing high dropout rate, mean fewer entry level workers.

Some of these conditions are due to a flagging economy. An unfortunate congruence of inflation, recession, the war in the Gulf and severe drought, following on the heels of an earthquake, weakened whatever strength was left in the state's revenues. In addition, recession aggravates the pressure for state services, especially unemployment benefits, Medi-Cal, and AFDC.

Education, as California's biggest industry, both drives and is at the mercy of the state's budget and economic well-being. Expanding needs, especially the extreme demand for facilities, cannot be addressed simply by calls for more efficiency or for broader choice. Many observers are perceiving the necessity to think about children in a context larger than schooling. Forging a children's policy, linked with children's finance, is the logical next step.

Many observers are thinking about children in a larger context with the goal of forging a children's policy linked with children's finance.

Lastly, the voters' approval of restrictions on legislative and other governmental terms and budgets has had a negative impact on current employees in Sacramento. The long run effect is hard to predict except to note that the terms of the financial decision makers will be limited if Proposition 140 stays in effect, while their backup research and legislative staffs are reduced.

Working on the multilayered problems takes legislative and voter decisions. Those are complicated by the changing demographics (especially the aging population, who votes), no abatement in Republican-Democrat hostilities despite bipartisan support for conciliatory efforts of a new Governor, and, on the national level, a recession, and the astounding costs of savings and loan and bank failures.

The 1991 budget crisis is a case study of an ongoing situation that could easily repeat itself. Or it could turn out to be a catalyst for facing the realities of the state, committing resources as needed, and correcting the long-term structural problems.

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EDSOURCE REPORT
MARCH 1997

EdSource

Clarifying Complex Education Issues

Categorical Aid

SPECIAL DOLLARS FOR SPECIAL PURPOSES

For over one hundred years state and federal governments have earmarked funds for specific educational objectives or for categories of children. The money is commonly referred to as "categorical aid." The term is often used as a catch-all for any designated money.

The proliferation of categorical programs has been somewhat counterbalanced by a trend toward consolidation or waivers of some of the many regulations that accompany this aid. California schools, with their diverse student populations, receive widely varying amounts of this special support.

Deciding what to support among the valid but competing demands on precious resources in public education is a difficult task, whether it be at a 400-student school site, in a large centralized district office, in a school board budget session, or in a caucus room at the state or federal capitol.

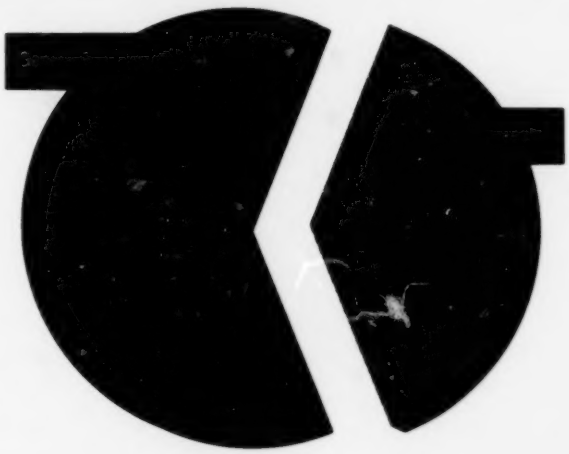
The Legislature and Governor can enforce their priorities by targeting dollars to specific categories of children, to a particular activity or educational program, or for a special purpose — with the presumed intention of equalizing or improving the educational environment and experiences for students.

Earmarked financial support is commonly called "categorical aid" — and it is a hundred-year tradition for federal and state governments in funding public schools. It usually means increased regulation of local schools instead of local control.

Categorical aid can be highly visible — books and supplies (Instructional Materials) or yellow school buses (Transportation), for example — or it can be so behind-the-scenes that many people are unaware of its existence, as in the Miller-Unruh program for teaching reading.

Figure 1

ALMOST 40% OF STATE EDUCATION FUNDS GO TO DESIGNATED PURPOSES



Data: Governor's Budget 1997-98 EdSource 3/97

A recent example of targeting dollars in California exemplifies some of the controversies associated with earmarked funds. This is the package of nearly $1 billion that the Legislature and Governor directed to reducing the size of K-3 classes and improving reading, beginning in the 1996-97 school year.

While state policy makers and much of the public are enthusiastic, many school districts have expressed frustration that they had to disrupt other programs, revamp budgets, and rush to make long-term staff and facility decisions in order to participate in the class size reduction program.

This EdSource Report covers:

1) the overall system of categorical funding
2) categories of categoricals
3) how the funds are allocated and used
4) problems, options, and the dilemmas of deregulation.

A matrix on pages 8 and 9 summarizes information about California's 32 special-purpose programs that receive over $7 million annually.

EdSource is an independent, impartial, not-for-profit education information center. We are committed to disseminating objective, technically accurate, and easily understood information about California school finance and other critical education issues to wide and diverse audiences. Through our publications, we strive to stimulate thoughtful dialogue, increase participation, and enable informed decision making on behalf of California's public schools.

Production of this publication was made possible by the generous support of the Walter & Elise Haas Fund.

A Look at the Overall System

Categorical aid is the label given to support for a wide variety of programs to help K-12 schools accomplish specific educational objectives. The programs fund services that are important to state or federal governments and courts. Many are supported by special interest groups that lobby the Legislature and Governor to ensure the continuation of the earmarked money or, in the unusual times of "extra" money, the promotion of a new activity.

Categorical programs can be voluntary, often with financial incentives to encourage a district to address a particular need. Some are services that courts or legislators have declared must be offered. They can extend to preschool children or to adults, and the costs can be fully or only partially covered.

Supplemental to general purpose school funding, the money comes from both the federal and state budgets. In 1996-97 California earmarked over $6.7 billion for specific purposes, and the federal government contributed $2.6 billion. Almost 38% of the total K-12 education budget in California can be considered categorical aid. For many years the federal government has provided about 8% of the state's education budget, mostly for categorical programs that supplement or complement those in California.

The earmarked funds almost always must be used in ways that are defined by law and/or government regulation: neither superintendents nor governing boards nor school site councils have full discretion over how the money is spent. And districts must carefully account for the expenditures, a procedure that can in itself be costly.

California earmarks funds for over 50 separate categorical programs, depending on how widely or narrowly "program" is defined, and about a dozen are supported by the federal government. The number has grown as new needs and mandates are born, develop and, rarely, die. As Figure 2 shows, fourteen programs are granted $200 million or more annually. Not listed on the chart are about 25 other programs that receive less than $50 million.

Each categorical program is separately designed and implemented. Each has its own requirements, funding machinery, and reporting regulations. Some have a date for legislative review and renewal or extinction ("sunset").

Many categorical programs have become entrenched in day-to-day educational practice. Their regulations and methods are built into the teacher education and credentialing process, into instructional materials, and into administrative practices. Other programs come and go more easily.

Because of the absence of an integrated structure, the system is extremely complex and tends to be viewed piecemeal. In a sense, it must be, because of the many different purposes and accountability schemes. For example, the multibillion-dollar Special Education program, a statewide network of specialist teachers, specially-configured classrooms, and diagnostic/support services for nearly 600,000 children with special educational, emotional, or physical needs, is so distinct that it has been characterized as "the second system of education."

A few of the programs (Instructional Materials, for example) reach every student in the state, while others serve far fewer of them. In some cases, the funds are meant to benefit only those children who form the qualifying pool.

Categories of Categoricals

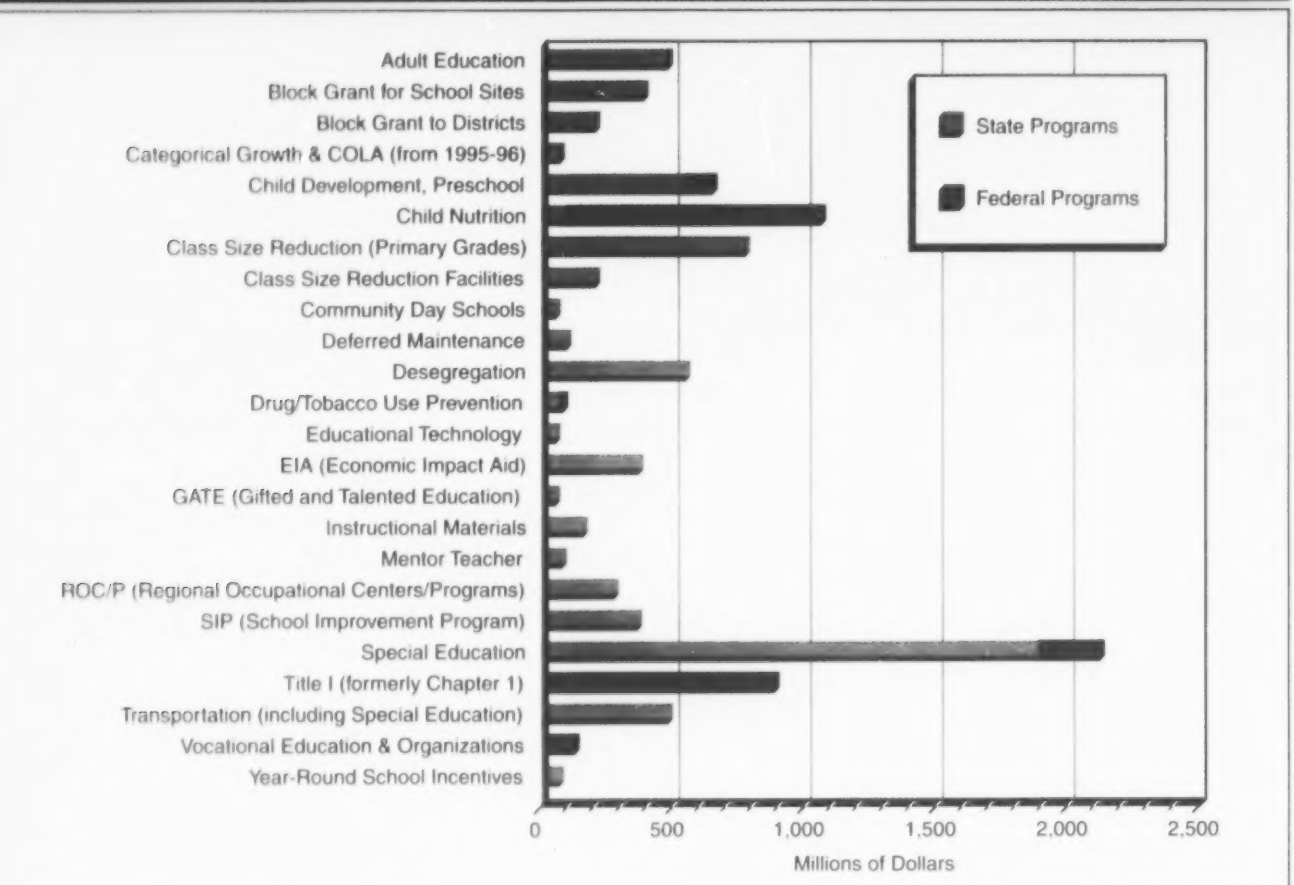
Because of the difficulty of getting a firm grasp on what "categorical aid" is and does, it is useful to display the information in several ways. Figure 2 has the relative dollar magnitude of 24 state and federal programs (over $50 million). The matrix on pages 8 and 9 is an alphabetical summary of California's 32 larger categoricals (over $7 million). It gives the name, a description, participation level, funding method, and

TABLE OF CONTENTS

A Look at the Overall System 2
Categories of Categoricals 2
Students with Special Needs 3
Instruction and Curriculum 6
Social and Health 6
Other 7
How Districts Get and Use the Aid 7
Distributing the Money 7
Spending the Money 7
Making Decisions 11
Problems and Options 11
Growth of Categoricals 11
Trouble Spots 11
Recommendations 13
Dilemmas of Deregulation or Decentralization 16

Figure 2

STATE & FEDERAL CATEGORICAL AID, 1996-97 (PROGRAMS OVER $50 MILLION)



Data: California Department of Education

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otal funding for 1996-97. Many programs have no data on the number of pupils served, so per pupil allocations cannot be compared.

The alphabetical list of categorical programs can be broken down further into four purposes:

- services for students with special needs
- improvement of instruction and curriculum
- social and health programs
- other.

The distinctions, while helpfully simple, are also arbitrary, since several programs have objectives or criteria that fit in multiple categories.

1) Students with Special Needs

Providing extra instruction and materials to students who need particular help is the cornerstone of categorical aid. The students who are targeted for this funding are educationally or economically disadvantaged (at risk of failure compared to other students), or they have disabilities that require special classes or services, or they have talents and abilities that warrant extra attention.

Special Education. For many years Special Education has guaranteed children from infancy to age 21 a free and appropriate public education based on an individual plan. Districts must locate and evaluate all disabled children and educate them in regular classes or the "least

restrictive environment" (also called "mainstreaming" or "inclusion" for the full school day). This huge program costs roughly twice as much per student, on the average, as regular education. Special Education services can be as simple as speech therapy or as complicated as placement in a full-time private facility, and the cost per pupil varies significantly depending on the disability or type of service.

Covering just over 10% of California's students, Special Education includes more than 300,000 children identified as learning disabled and over 100,000 who are "speech and language impaired." The remaining students have a variety of disabilities, such as mental retardation or physical and emotional impairments. Students with severe physical or mental problems are a small fraction of the Special Education population.

California's Master Plan for Special Education (Senate Bill 1870, Rodda 1980) is based on a sequence of federal laws. The latest one, Individuals with Disabilities Education Act (IDEA), controls the qualifications for special education services and the responsibilities of school districts, including safeguarding parents' rights.

Desegregation. The second largest program in this group is for districts that are under a court order to desegregate their schools racially or that voluntarily chose to do so. Some districts have dropped their original desegregation plans but continue to spend the targeted funds for magnet schools, child care, smaller classes, and other expenses associated with providing extra efforts for minority students. Because the original plans for desegregation efforts were specific to each participating district, the amount of funding per affected student varies.

Economic Impact Aid. The third largest program in dollar terms is Economic Impact Aid for students who are high cost or at risk of not succeeding in school. Every district in California receives at least a minimum amount of Economic Impact Aid, and those with high concentrations of students with particular social or economic characteristics (need to learn English, low-income or transient status, for example) get more.

FUNDING PUBLIC EDUCATION

California's public education system is mammoth, and growing. It takes billions of dollars to educate more than five and a half million students. The total allocation is determined by a constitutional amendment from 1988, still referred to as Proposition 98 (as amended by Proposition 111 in 1990).

How much funding each of the 999 school districts and 58 county offices of education get also depends on past and present legislative-gubernatorial action, including long-standing formulas for permitted revenue, inflation adjustments, and favored or desired programs for students with special needs. State leaders control the amount of local spending discretion through the way funds are allocated and through the criteria attached to them.

Each district budgets its funds within the parameters of contractual obligations to employees, state and federal regulations, categorical aid requirements, and court decisions. When discretionary money is available, the district can decide whether to hire classroom teachers or aides, specialists, support personnel or administrators; to augment salaries of existing personnel; to invest in technology or playground equipment; to buy a portable classroom; upgrade existing spaces; or take care of needed maintenance. When new categorical programs are created, sometimes a district can decide whether or not to provide them. The exception is when a particular activity or service is mandated or required by law or the courts; in that case, each district must comply.

During times when the state's economy is growing and additional funds are available for education, the Legislature and Governor decide how to allocate them. The experience in California is probably similar to that in the rest of the country. University of Wisconsin education professor Allan Odden finds consistent patterns in urban, rural, high- and low-spending districts. Increases in funding are used primarily to hire more teachers in order to create smaller classes and/or to provide extra programs for disabled and low-achieving students. A small portion goes toward higher teacher salaries, but not usually as incentives to encourage teachers to improve their professional expertise or to reward performance.

Researcher Richard Rothstein of the Economic Policy Institute wondered how substantial increases in revenues were used in the 25-year period from 1967 to 1991. His answer, based on the investigation of nine representative districts around the country, is similar to Odden's. Part of the extra money went toward teachers salaries, but most of it went into categorical programs to train disabled students and to assist low-achieving ones. He calculates that expenditures for regular education dropped from 80% to 59% of the total, while those for "special education" rose from 4% to 17% (all figures adjusted for inflation). Of the net new money in 1991, 38% was for special and 26% for regular education.

Sources: Odden, A. WCER HIGHLIGHTS, Wisconsin Center for Education Research, U of Wisconsin-Madison, Winter 1995-96. Rothstein, R. with Miles, K. Where's the money gone? Washington, D.C.: Economic Policy Institute, 1995.

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LEARNING ENGLISH

One of the greatest challenges for just about every school district in California these days is how best to teach English to more than 1.2 million students who need to learn it well.

California had a bilingual education law, but it was dropped ("sunsetted") in 1987; bills concerning teaching English have been debated irregularly since then. However, court decisions require districts to provide services when a certain number of children who need to learn English are in one school, and the state (and the federal government) do provide funds for that purpose.

There is no agreement, based on either empirical or anecdotal evidence, of what works best. Some believe that immersion (placing students directly into classes where English is the only spoken language) works fastest; others are sure that a child should become literate in the family's language before tackling English. The issue is not this clear cut: many believe each district should be free to create its own program, while others fear that children will fall through the bilingual cracks.

The problem is difficult enough in a class or school where the second language is predominantly Spanish. The confusion becomes substantial when one class has children who represent ten or even more languages.

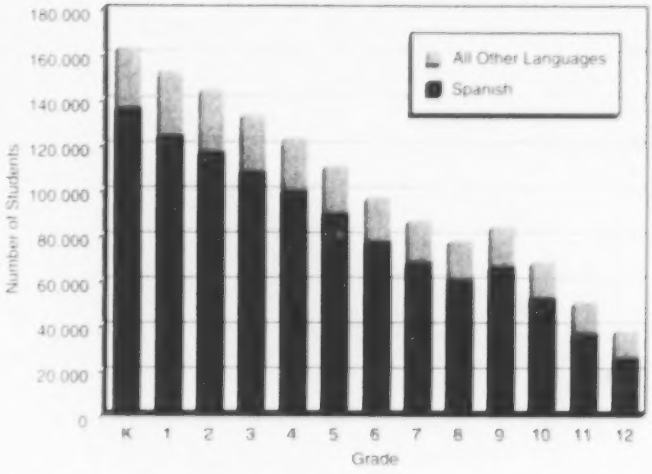
Limited English Proficient (LEP) used to be the label for students learning English. A recent concept is English Language Development (ELD), whose goal is to respond to a student's proficiency level irrespective of grade level. The education community is also concerned about the training and credentialing of bilingual teachers and about consistent standards for moving students out of a bilingual program and into regular classes.

Different approaches are arguably language-specific in their efficacy. And students' progress can be helped or slowed by the education level and commitment of parents, as well as other resources in local communities. A big unknown is the potential role of technology in helping students to speak, read, and write English.

One thing is certain: this challenge will not disappear. Many children will face the problem even with a slowdown in immigration. And recent changes in the welfare laws could strain services, such as Adult Education classes for non-English speakers, that are already filled to capacity.

Figure 3

STUDENTS WITH LIMITED ENGLISH PROFICIENCY, BY GRADE, 1996



Data: California Department of Education

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Each district may decide what services to offer its low-achieving students. In many cases EIA is directed primarily toward teaching English to students who speak a different language.

Bilingual Education. Although "bilingual education" is a well-known concept, it does not appear on the matrix. This is because the program is in fact a set of service requirements imposed by court interpretation of federal law. It is not really a categorical program, and no one knows how much money is spent for bilingual education because there are no reporting requirements. Much of the money comes from Economic Impact Aid expenditures. (See box above for more information.)

Titles I and VI. Two other programs that carry considerable funding fit in this category. These come from the U.S. Department of Education.

Title I funds coming into California in 1996-97 total $881 million. The intended beneficiaries are approximately the same students as in EIA, ones who are educationally disadvantaged and need additional help (including children of migrant workers). The funds are distributed to school districts, which make allocations to eligible schools according to criteria in the federal law (Educational Consolidation and Improvement Act). The $27 million of Title VI money is largely for innovative programs.

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GATE. The small (in dollar terms) Gifted and Talented Education program is intended to assist students who have special talents or abilities. (A student can be part of both a GATE and a Special Education program.) As the matrix shows, GATE funding is a tiny proportion of the allocations for "special needs" students. Fewer than 7% of the students in California were in GATE programs in 1996, although an increase in the allocation for 1996-97 permits more districts to participate.

2) Instruction and Curriculum

This second category of earmarked funds provides school districts with dollars that are to be used to improve instructional programs. What happens in California classrooms is a focal point in current education legislation. The Legislature and Governor have chosen to direct increases in school funding to this area.

"The benefit of decentralization is increased responsiveness to local service needs. The risk of decentralization is that local decision-making (district or school) may conflict with other state objectives."

Reform of Categorical Education Programs, Office of the Legislative Analyst, 1993

Class Size Reduction. Nearly $1 billion was targeted in 1996-97 for financial incentives to reduce class sizes and to improve the teaching of reading in the primary grades of kindergarten through third. The original legislation had requirements for the number of students per class (no more than 20 to 1 at any point) and the phase-in of grades (first, then second, then third or kindergarten).

In the 1996-97 school year, an estimated 983,000 students, mostly in first grade, were being taught in smaller classes, and districts were hiring and training more teachers and trying to find classroom space.

This program is funded according to the number of pupils who are involved, although the support may not cover the full cost. A related law provides a small amount (compared to the need) for additional facilities to handle the increased number of classes.

Block Grants. The second highest funding in this group for 1996-97 — two sets of nonrecurring block grants — is not a traditional categorical and does not exist in some years. It stemmed from an unexpected increase in state revenues that, because of the constitutional initiative known as Proposition 98, had to be allocated to K-14 education. The Legislature and Governor chose to send some of the money to each school to be used at its discretion and the rest to each district for one-time expenditures, such as for instructional materials, library resources, deferred maintenance, or technology. These grants are meant to benefit all students.

School Improvement Program. Initiated in the late 1970s, SIP programs are at schools in approximately 950 (of 999) school districts. A School Site Council composed of staff, parents, and students (high school) must agree on a plan that will result in an improved educational program in the school. This is one of the few categorical programs that provides discretionary money for schools directly. Typical uses are for instructional aides, classroom materials, technology, and staff development.

About a dozen other categorical programs, ranging from staff development money for administrators and teachers to the development of statewide tests to instructional materials, are aimed at instruction or curriculum in California schools.

3) Social and Health

Both the state and federal governments provide substantial amounts of money for services to children outside the classroom. Some of these are counted as part of the money allocated to K-12 education. Important as the social and health programs may be to children and families (and eventually schools), not everyone agrees that they should be included in the education budget.

Child Development and Nutrition. This grouping is dominated by more than half a billion dollars that California allocates for Child Development or Preschool programs, augmented by $127 million in federal funds. The federal government also provides nearly a billion dollars for Child Nutrition in addition to the $70 million allocated by California. With the exception of subsidized breakfasts and lunches for low-income children, most of this money is for child care and other activities for 3- and 4-year-olds from low-income families.

Healthy Start. Governor Wilson initiated this program as a preventive measure that could help disadvantaged children avoid educational problems later in school. The funds pay for coordinated health and social services at school sites. The total has more than doubled since its inception in 1991, from $20 million to $49 million in 1996-97.

4) Other

The few programs in this category are more general. That is, they are tangential to the K-12 instructional program.

Transportation. Many school districts provide buses for home-to-school transportation, and all must arrange transportation for Special Education students who need it. The state's Transportation categorical aid typically does not cover all the expenses, so districts meet costs by spending general purpose funds or by charging fees to parents (except those with Special Education students).

Adult Education. The other large item in this group is Adult Education. These classes, run by school districts, often teach English as a second language, citizenship, courses for completing high school graduation requirements, or training for jobs; fee-based classes are also offered. Recent changes in the welfare laws could add to the demand for Adult Education. Again, there is a question about whether or not Adult Education should appropriately be included in the budget as a "K-12 education" program.

How Districts Get and Use Categorical Money

By definition and intention, categorical aid does not affect school districts equally. Some get very little, while others acquire over 40% of their revenues from earmarked funds. A few programs reach virtually all of the state's five and a half million schoolchildren, while others are allocated more narrowly.

In some cases, the allocation is automatic, requiring little or no initial effort on the part of a school district. In other instances, districts must complete an application, compete for a grant, or otherwise indicate their intention to participate.

Distributing the Money

Categorical funding is distributed to school districts (rarely to individual schools) in several ways:

- A **grant.** These can be competitive or automatic. The state can offer a "bonus" to encourage (rather than require) districts to provide particular activities or programs. An example is the incentive payment for deferred maintenance projects. Incentive money rarely covers all the costs, and the programs sometimes have guidelines that leave the district with little local flexibility.

  Except for class size reduction and child development, these programs tend to be small. In some years the Legislature has developed a **"block"** grant that allows flexibility in how districts design a program or choose to spend the money. Although regulatory compliance rules can dilute the options, block grants do provide considerable local discretion.
- According to a **formula** based on the number of students who are served by the program or who meet certain criteria. About 40% of the programs, including EIA, Special Education, and Adult Education, work this way.
- By **enrollment** (number of students), automatically. An example is the money earmarked for Instructional Materials.
- As **reimbursement** for some or all of the cost of the service a district decides to provide, such as Transportation or Desegregation (both partial).

Spending the Money

Mega-Item. The way districts can spend categorical aid is a bit more flexible than it was

DEVELOPMENT OF THE MEGA-ITEM

In the early 1990s the sluggish California economy posed many dilemmas for legislators and the Governor. One of these was whether or not to provide increases to categorical programs for growing enrollments or inflation. Fortunately, both parties found a compromise they could support.

Republicans were attracted by an across-the-board cut, giving school districts discretion to divert funds to higher priority categorical programs, and Democrats wanted to protect individual categoricals from the Governor's line-item veto authority. The result: a "mega-item" combination of between 30 and 40 programs that both prevented the elimination of separate budget lines and permitted local districts to shift a certain percent of the funds in one program to another within the mega-item, for up to a maximum increase in any program.

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Adult Education	Citizenship training, improved literacy, employabi and high school students
Beginning Teacher*	Training, mentors, and extra support for new teac
Child Development Preschool	Prepare 3- & 4-year olds from low income familie
Child Nutrition*	School lunch and breakfast (free or reduced price
Class Size Reduction (Grades 9-12)*	Reduce class size for core academics (subjects for 20 students per teacher
Class Size Reduction (Primary Grades)	Better teaching of basic reading, math skills to pr grades 1, then 2, then either K or 3
Class Size Reduction Facilities	Additional teaching stations for primary grades
Community Day Schools	Academic program separate from regular school probation authorities
Deferred Maintenance	State match of up to 0.5% of district budget earm
Desegregation*	Alleviation of racial isolation under court order or busing, other programs and services
Dropout/High Risk Youth Programs*	Dropout prevention and recovery services, job tra
Drug/Tobacco Use Prevention	Reduce use of tobacco or drugs by youth throug
Educational Technology*	Assistance to school districts for computers and te
EIA (Economic Impact Aid)*	Bilingual and compensatory education for district (AFDC, LEP, transient, minority)
GATE (Gifted and Talented Education)*	Enrichment and acceleration for students with ext
Healthy Start	Preventive measures to improve school readiness and social services for children, families at schoo
Instructional Materials*	Elementary materials, at least 70% from list adop student needs, high school materials must meet s state curriculum frameworks
Mentor Teacher*	Stipends for up to 5% of previous year's classroo or develop programs
Miller-Unruh Reading*	Improve reading programs, especially for econo through specialist teachers
Opportunity Programs*	Assist 7th-9th graders with truancy or discipline p
Partnership Academies*	Cooperative efforts with local businesses to prep through integrated academic and vocational cur
Pupil Testing	District achievement testing grades 2-10 for stud 10 for district or state results
Reading Initiative	Staff development to improve skills for K-3 teach
Reading materials, K-3	Complete set of core reading materials for each
ROC/P (Regional Occupational Centers/Programs	Improved employment skills for students age 16- counseling
School Dev. Plans & Res. Cons.*	Staff development programs for high schools not
SIP (School Improvement Program)*	Planning, implementation, evaluation of improve materials, staff development
Special Education	Services specified in student's Individual Educati individuals with educational, physical, or emotio
Targeted Truancy & Public Safety	Integrated strategies to prevent truancy and rela
Tenth Grade Counseling*	Career and coursework planning for high schoo
Transportation (including Special Education)*	Home-to-school and special education student tr
Year-Round School Incentives*	Maximal use of facilities through multi-track stud 4 weeks off year-round

ility and parenting skills for adults	1,371,407 state-funded students; 213,760 fee-based; 309,333 federally funded (1994-95)
chers	30 local programs serving 2,000 beginning teachers and 450 pre-service teachers in 1995-96
s for school	51,400 preschool, 67,400 child care
t) for qualifying students in public and private schools	3.2 million meals per day at over 40,000 sites
r state graduation requirements) to an average of	302 districts, 240,000 students
mary grade students with 20 students per class in	851 of 895 districts, almost 1 million out of 1.9 million eligible students (Fall report)
	8,000 (out of 14,000 requests) classes funded
s for expelled students and those referred by	Maximum 25,000 students
arked for major maintenance projects	975 districts
voluntarily by the district through magnet schools,	14 districts under court ordered, 52 districts voluntary
ning, basic skills	100 districts, 20,000 students
h programs, staff development, technical assistance	95% of districts with grades 4-8, 2.2 million students (tobacco)
chnology in the classroom	307 grants at 320 schools enrolling 236,000 students
s with a large proportion of high cost students	All districts (999)
raordinary talents or academic ability	768 districts, 356,307 students (estimated 1996-97)
of low income children through coordinated health sites	650 schools (≤400,000 students) operational, 916 schools (≤50,000 students) planning grants
ted by State Board of Education, that best meet ocial content standards and be congruent with	All districts (3,907,151 elementary students, 1,499,819 high school)
m teachers selected by the district to assist others	All districts, 11,232 mentors (1995-96)
nically disadvantaged students in early grades	337 districts (1996-97)
roblems	
are at risk and other students for transition to work icula	45 academies with 5,300 students
nt or school scores, state tests grades 4, 5, 8, and	
rs	850 districts and county offices of education, 1,801,253 students (1995-96 count used to make first payment)
K-3 student	810 districts and county offices of education, 1,713,544 enrollment (1995-96 count)
18 through training in work skills, job-related	70 ROC/Ps, 113,502 students (ADA, 1995-96) Revenue limit per ADA of ROC/Ps
receiving SIP funds	350 districts
d school program using instructional aides	950 districts
n Plan in the least restrictive environment to nal disabilities	594,279 students
ed behaviors with demonstration programs	8 or more sites
students	405 districts
nsportation (buses, drivers, gas, maintenance)	926,000 students in almost 1,000 districts and county offices of education
nt schedule, e.g. 12 weeks in school,	186 districts, 1,249 schools, 1,101,659 students (includes 231,659 on single track)

CALIFORNIA AND FEDERAL SPECIAL PURPOSE PROGRAMS, 1996-97

Funding Method	Type of Program	1996-97 State Federal (F) Funding
Revenue limit	Block Grant	$451,722; 25,681F Million
$3,000 per beginning teacher; district match up to $2,000	Application, grant	7,524
Year-to-year contracts with school districts and private agencies	Grant	516,927; 127,358F
Free meals: 11.07¢ per meal served (state) and maximum $1.8575 per lunch, $1.2125 per breakfast, 50.5¢ per after school snack (federal)	Formula	69,912; 987,460F
Estimated $100 per student enrolled	Application, formula	32,337
$650 per student participating full day, $325 half day	Incentive payment	771,000
$25,000 per class (approx half cost of a portable classroom)	Application, grant	200,000
$1,500 per student attending 6 hours per day, $750 per student attending 5 hours (cap of 0.5% of ADA)	Application	52,593
Match using excess bond repayments to the state and other state funds	Incentive, application	91,100
Court Ordered: reimburse 100% base year costs, 80% program expansion costs. Voluntary: 80% base year costs, 0% program expansion	Partial reimbursement	545,503
$44,000 outreach consultant for regular schools; $35,000 for alternative work centers; $100 per student returning to school	Grant	17,293
$6.45 per student (ADA) for tobacco use prevention		42,000; 36,844F
Regional grants and competitive awards of $25 per student, minimum $4,000 per project	Application, grant	50,288
At least $136 per qualifying student, more to districts with high concentrations of qualifying students; minimum $4,216 per district	Formula	366,320
Estimated $7.50 per prior year district ADA for districts with more than 50 GATE students	Application, grant	50,747
Operational grant up to $300,000 over 3 years with 25% match by district, planning grant up to $50,000 over 2 years	Grant to school, maximum 3 years	49,000
$28.20 per K-8 student (ADA); $18.80 per 9-12 enrollment	Formula	157,141
$5,837 per mentor position; stipends to mentors range from $4,000 to $4,312	Application	73,620
$23,026 per FTE position; district must pay remainder of salary	Application	29,062
$400 per student served over 1982-83 levels of students	Reimbursement	7,376
Average cost $700 per student	Grant	8,016
$5 per student tested to district; state funds for test development	District incentive; state test development	25,153
First payment of $5.69 per K-3 student enrolled in 1995-96; will be revised when 1996-97 enrollment available	Application	15,000
Estimated $80 per K-3 student enrolled	Formula	152,000
Revenue limit per ADA of ROC/Ps	Block grant	271,694
$13.02 per student (ADA)	Application	17,417
$87.92 per K-6 student enrolled; $9,999 per 7-8 school ($2,812 for planning grant); $7,215 per 9-12 school	Application	360,403
Unit rate by type of service	Formula	1,860,166; 255,016F
Maximum $1.2 million per site	Demonstration grant, 3 years	10,000
$22.34 per previous year 10th grade enrollment	Formula	13,329
Prior year allocation plus COLA when funded (Fees authorized for home-to-school)	Partial reimbursement	476,317
Implementation (one-time) and Operating (ongoing) grants	Incentive	62,809

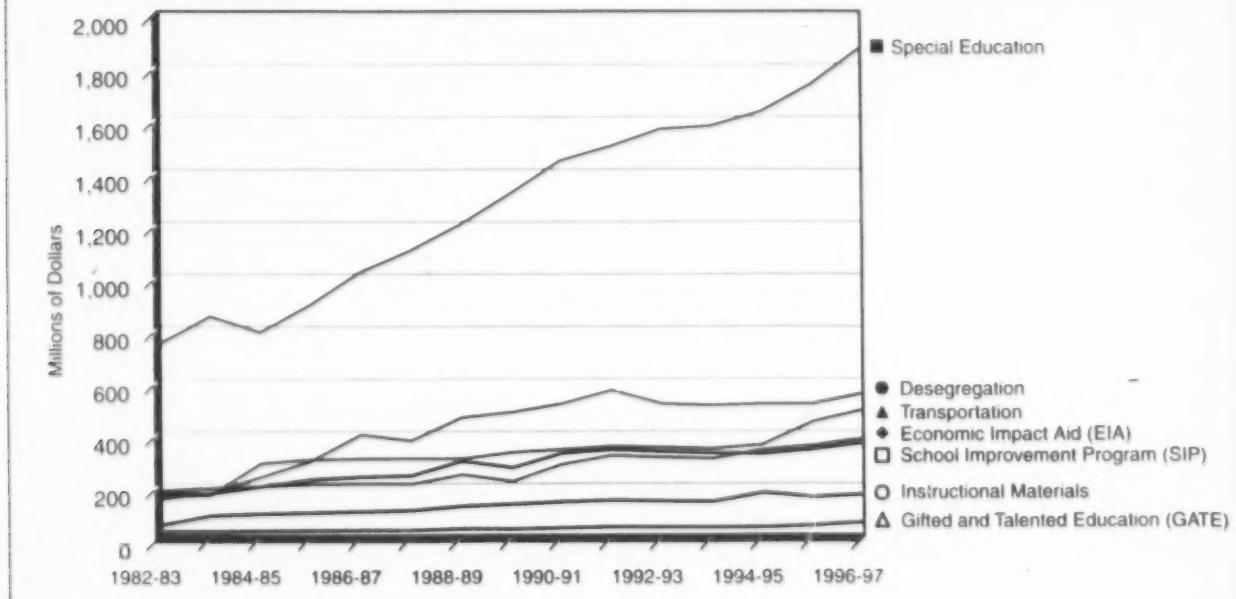
several years ago due to a budget maneuver called the "mega-item." About 30 programs (see asterisks in the matrix, page 8) are combined into one budget line. Although the program guidelines remain for each one, districts may shift up to 15% from one mega-item program to another, up to a 20% increase for any given program. Evidently districts have been using this discretion primarily to reduce the drain of some programs on their general purpose funds. For 1996-97 districts may redirect up to half of a mega-item program's funds to one-time expenses of the class size reduction program.

Required local match or spending. One of the dilemmas simmering in the categorical soup concerns a concept that many call "encroachment" — commonly understood to be the need to spend local general purpose revenues for a special purpose program that is not fully supported by categorical funds. In the case of required services, districts must pay the full costs no matter how much or how little money they receive for that purpose. For example, the state and federal appropriations for Special Education have the practical effect of obligating a local district to contribute, sometimes at least 25% of the total cost of the program.

In voluntary programs, such as Transportation, districts choose to provide the service knowing they are not guaranteed full reimbursement for the costs. Incentive funds (for example, establishing a year-round calendar to relieve enrollment pressures) are not necessarily expected to cover all costs. Once the class size reduction program was under way, it quickly became apparent that expenses exceeded the per pupil allotment in many districts. Since this is an incentive program, the allocations were not necessarily intended to cover the full cost, which varies by district.

Figure 4

GROWTH OF SELECTED CATEGORICAL PROGRAMS, 1982 TO 1997



Data: California Department of Education, State Budget Act, various years

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Making Decisions

The method of allocating categorical funds can shape the educational program and affect how the dollars are used, and it can also have an impact on who makes the decisions. School districts have limited control over how they spend this income. They must be able to show that it supports the children, or the purpose, for which it was intended even if they would prefer to budget the money differently.

How categorical funds are actually spent depends on their purpose. A few are self-explanatory, such as Educational Technology or Bus Replacement. In most of the programs connected with young children, compensatory education and general instruction, the money often supports staff. This can mean, for example, regular classroom teachers, aides, bus drivers, specialized teachers, or administrators.

The sources and uses of categorical funds can be traced easily in districts that provide separate program budgets. These can also show if encroachment or a match is required. Although the budget must note which money is restricted to particular uses, tracking the expenditures from individual categorical grants can be difficult. A standardized account code structure now being piloted will encourage clearer accounting at the district and eventually at the school level.

Problems and Options

Growth of Categoricals

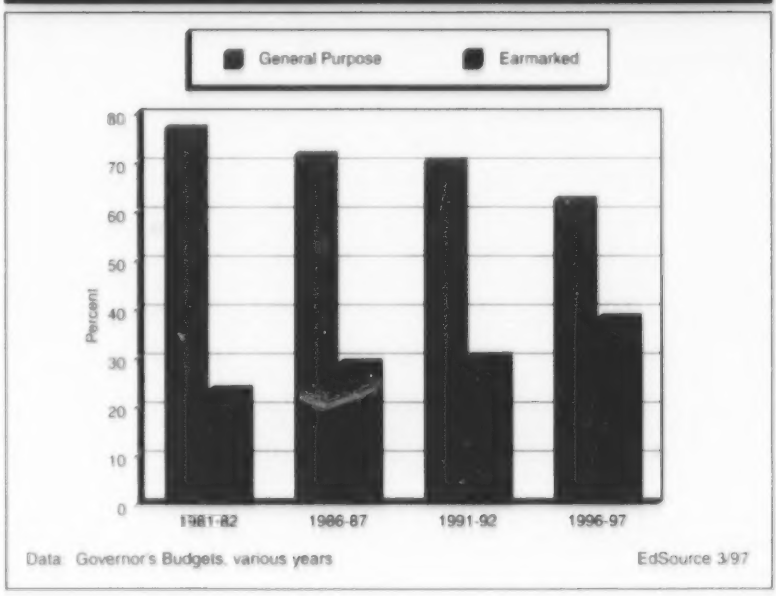
The growth in selected state categorical funds over 15 years is shown in Figure 4. Despite a legislative schedule of review and sometimes discontinuation of regulations, these categorical programs clearly have strong staying power.

The ratio of general to special purpose support has changed considerably over that period, as Figure 5 shows. Earmarked money has increased steadily from about 25% in 1981-82 to nearly 40% in 1996-97. Will that trend continue? This hot political question is receiving new attention in the late 1990s.

The summary of pros and cons on page 12 describes a definitive split. Attitudes toward categorical aid can be driven more by issues of decision making, control, and politics than by the goal of improved student performance or financial efficiency. The reality of today's panoply of categorical programs does not always match the rhetoric of protecting and responding to the needs of students.

Figure 5

SHIFTS IN K-12 FUNDING 1981 TO 1997



Data: Governor's Budgets, various years

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Trouble Spots

Long aware of discrepancies between good intentions and actual practices, the Legislative Analyst's Office (LAO) reviewed current conditions and research on effective schools to identify problems with categorical aid and to recommend changes. *Reform of Categorical Education Programs: Principles and Recommendations* was released in April 1993.

Four years later, in 1997, progress towards their proposals was at best slow. And the context unexpectedly and dramatically changed because of the newest program with the technical characteristics of a categorical — dollars earmarked for the tightly constrained purpose of reducing class sizes to 20:1. This legislative decision, plus the fortunate circumstance of extra money for K-12 education, brought sharply into focus the question of alternative uses of dollars

ATTITUDES TOWARD CATEGORICAL AID

PROS

Supporters of categorical programs describe valuable features that might not or would not exist in a deregulated or decentralized system:

- Earmarked funding permits targeted, specific problem-solving. It can ensure appropriate educational services to all children, and it can be used to redress inequities in the system or in society.
- A separate program allows the government to highlight a special need by spending money on it, which gives local educators the incentive to meet the need.
- All districts must comply with court mandates and federal legislation, and categorical funds provide some of the means. These resources are vital when particular services are required.
- Categorical funds can be resources for innovation, covering at least some of the costs for voluntary new ventures that could be difficult or impossible to finance from the regular operating budget.
- A strong state hand in categorical funding will protect all students from dilution of special programs.
- An "outside authority" can help keep funds off the collective bargaining table.
- Block grants from the federal and state government and the consolidation of 30 to 40 categoricals into one state budget mega-item improve local flexibility in expenditures and in program design (although block grants can lead to undermining or eroding some programs).
- Categorical programs can build expertise among educators working with particular groups. The formation of powerful professional associations can be positive, especially when they serve as advocates for the weakest members of society.
- Some categorical aid is for purposes that support the educational program indirectly. If the money is not earmarked, this indirect support could disappear into the district's budgeting process or collective bargaining negotiations.
- The goals of a categorical program can be the focus for helpful evaluation at the local and state levels.
- Categorical aid is an opportunity for the Legislature and Governor to take a statewide perspective, to fund popular projects, to show political clout, and to make political points.

A final argument in favor of categorical programs is that, whatever their faults, they make a real difference in the lives of many children.

CONS

The skepticism about categorical funding has its roots in arguments against earmarking funds, centering around local control and concern for individualized instruction:

- Categorical programs can be rigid, top-heavy, regulatory, and unresponsive to local needs in a large and diverse state. Because the system grows with no overall plan, the result can be an incoherent maze.
- Years of government regulation have stunted local creativity and flexibility in effective instruction. Requirements inhibit change; red tape provides excuses for those who do not want to innovate and roadblocks to those who do.
- Block grants enhance local educators' flexibility to provide education appropriate to the particular circumstances of the children.
- A categorical program can be a disincentive to correct a student's weaknesses, because the funding stops once the student "graduates" and no longer qualifies.
- Categorical programs cause a blizzard of paperwork, requiring more administrators.
- When the aid does not cover expenditures, districts must use general purpose funds to make up the difference. This "encroachment" can divert funds intended for the classroom.
- The pattern of categorical payments is unequal, and it may not reflect the composition of a district's student population.
- Allocations are not necessarily related to need; they can be based on political rather than analytical formulas.
- The overlapping programs for some students makes it impossible to measure the marginal impact of each one. Some programs continue because of anecdotal evidence, which cannot be proved one way or the other.
- Some categorical programs favor or require particular instructional models that may or may not work best in diverse districts.
- Fiscal convenience rather than educational soundness can dictate the instructional approach. "Pullout" programs are convenient and easy to monitor, but they disrupt regular class instructional time, may dilute students' access to the core curriculum, and can lead to overclassifying and tracking.
- Educators involved in a categorical program can become advocates in perpetuity, and the unorganized can lose out. Parents and the public have little involvement except in the few cases in which it is required in the decision-making process.
- Only local schools and their community can truly know which students need extra resources. A typical complaint is the contrast between the amount of money schools must spend on each child in a Special Education program versus the limited money available for the other 90% of students.
- Waivers are insufficient tools, and the mega-item and block grants still contain constraints that hamper local decision making.

The final argument is that effective schools should be locally empowered, directly funded by the state, and free from multiple, government-regulated categorical programs.

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eneral purpose versus categorical, for exam-e) and who should decide (policy makers in cramento, local school districts, or, in the case charter schools, individual groups).

Here is a summary of the 1993 and 1997 nclusions from the nonpartisan Legislative nalyst's Office:

- the success of categorical programs depends on what happens in the classroom. Both state and school district regulations constrict the ability of teachers and administrators to decide what their classrooms most need.
- categorical programs should "accommodate the variations that exist in the real world." Many of the allocation formulas, for example, have not been adjusted for years, despite spurts of growth (or decline) and dramatic demographic changes around the state.
- integration of the educational experience for students is more effective than separate structures for services.
- "By expanding categorical program spending, the state substitutes its judgment of what K-12 funds should buy for the views of local school boards." In addition to being counter to local control, state-level decisions can require uses that are not high priority to all districts.

The LAO identified six specific problems ith the current system of categorical aid. First the lack of sufficient local flexibility to design ffective programs. With few exceptions, tying armarked money to administrative, spending, nd programmatic regulations diminishes the ontrol of each district over its budget.

Second, many categorical programs are ased on rules rather than an orientation toward aximizing the effectiveness of the activities.

Third, local programs can be fragmented; everal categorical programs are aimed at the ame student population but have different uidelines.

Fourth, funding methods can turn into negtive incentives. Regulations for placement or elease of children in programs can be disincenves to integrate them into r gular classrooms — hen students "improve," the dollars disappear.

Fifth is the lack of evaluation of the impact and results of categorical programs. Compliance review, which occurs in all school districts for some categoricals, is not evaluation. Pressure from parents or educators to continue certain categorical programs is not necessarily based on evidence of their success for students.

Sixth, and above all, the LAO points out that California still has no statewide standards or ways of measuring performance to know what works best for students under different conditions and among different students.

The Analyst's report calls for improving the effectiveness of categorical programs while maintaining their essential purposes — by using standards, measurement, and incentives over prescribed programs and mandates. Their review of research on the common components of effective schools concludes that concentrating control and much of the funding at each school is a key component for success.

Recommendations

Supported by a number of education organizations and policy groups, the LAO believes that California must undertake the complex and difficult steps of

- identifying the impact and establishing outcome measures for categorical programs.
- consolidating programs that have similar goals and anticipated results.
- changing mechanisms to "align program and funding responsibilities."
- evaluating the high priority categorical programs to determine what works best for students.

A specific immediate step, according to the LAO, should be to combine 21 existing categoricals into four groups of block grants. Their purposes would be School Improvement grants to school sites; Staff Development grants, also to individual sites, to be included in the SIP planning process; evaluation (from federal Goals 2000 funds); and compensatory education (a small portion for "alternative education" programs and a larger part for activities for low-achieving students previously covered by

EVOLUTION OF CATEGORICAL AID

Categorical aid to K-12 education has existed for many years, beginning with special help for disabled children and vocational training. A strong push occurred in the 1950s and especially the 1960s. In that era of Sputnik, civil rights, and the War on Poverty, the federal government stepped up interest in education to meet critical national goals: winning the space race, bringing justice and equal opportunity to minorities, and improving the lives of the poor.

In the 1960s, many in Congress viewed state and local governments with mistrust, not in the least because several states at the time were still operating and actively defending segregated schools. Therefore, strict regulations accompanied federal money to insure that it was spent the way Congress intended. Categorical dollars were supposed to supplement, not supplant, state education funding; states or local schools were directed to provide targeted children with extra services.

The history of categorical programs in California parallels the federal experience. Although the state has long assisted with extra funds for education (programs for the disabled date from 1860), the strong thrust toward categorical programming began in the early 1960s with a focus on compensatory and gifted education. Like the federal government, California also paid attention to vocational education at this time by creating Regional Occupational Centers and Programs (ROC/Ps).

Over time, decisions in both state and national courts placed new requirements on the schools — for example, to desegregate, to better serve disabled children, and to provide special help for non-English-speaking children. Court cases such as *Larry P.* v. *Riles* in 1972 (special education) and *Lau* v. *Nichols* in 1974 (bilingual education) have stimulated or shaped a number of state and federal categorical programs.

Gradually both the federal and state governments broadened their programs to provide supplemental funds for textbooks, teachers' retirement programs, and home-to-school transportation.

By the end of the 1970s California had a multiplicity of programs, and the pendulum began to swing toward consolidating them. For example, three programs for children from low-income, high-mobility, and/or limited English-speaking families were merged into Economic Impact Aid. And by 1980 California had combined its multiple programs for disabled students into one Master Plan for Special Education. Today's major categorical programs were created then, and they remain largely unchanged.

During the 1980s, the categorical approach continued to be an issue at both the state and national level. Some of the federal funds were combined into one block grant to be administered through each state according to enrollment rather than through competitive grants. California allowed districts to coordinate the funds and services of eleven programs through one consolidated application and report, with coordinated field compliance reviews.

New laws specified that many categorical programs would "sunset" on specific dates unless renewed by the Legislature and Governor (until recently, most major ones were extended). In three — Bilingual Education, Economic Impact Aid, and School Improvement Program — the program regulations ended but the funding continues, with the stipulation that the money must be used to support the original intent. Districts may also ask the State Board of Education to waive certain sections of the Education Code if these conflict with local needs.

In the early 1990s Governor Pete Wilson and the Legislature combined about 30 categorical programs into one "mega-item" in the state budget. Districts can transfer a limited amount of funds between programs in the mega-item.

Despite the swing towards consolidation during this time, many new programs were — and still are being — created. A Legislative Analyst's Office survey of several decades of categoricals reveals a tendency to recycle and repeat ideas for these programs.

desegregation and EIA money). Most formulas and spending restrictions would be swept away, and the funds would simply be distributed per pupil (or per qualifying student).

The rationale behind the LAO recommendations is simple: to help schools address the needs of their students, particularly the low performing ones, and to assist with local underinvestment (for example, in maintenance or staff development which often take second place to more urgent expenditures). The rest of categorical funds should, the Analyst says, be used for short-term demonstration programs or to stimulate school reform.

A philosophically similar proposal, with different details, was rejected by the Governor in late 1996, but the bill (Assembly Bill 2769, Alpert/Baldwin) resurfaced in 1997. In this proposal, several current programs, including Special Education, EIA, Desegregation, GATE, Transportation, Adult Education, ROC, and Child Development, would continue as separate line items in the budget while others would be consolidated.

A related question is how extra money for education should be allocated. One option, favored by Governor Wilson, is to concentrate funds on the class size reduction program and on new initiatives rather than on increases to general purpose funds or other existing categorical programs. Because California's school population will continue to grow in the foreseeable future, holding categorical funding at the current level often means less per pupil. An alternative, favored by the LAO, is to grant at least half of any additional support directly to districts, for use at their discretion.

Finally, another high priority on many lists is to reform Special Education. A complex bipartisan proposal for revising the funding formula in 1995 never even reached the point of a legislative hearing. Education observers fear that the many vested interests in Special Education will prevent the systemwide reform that is needed. Federal law, originally scheduled to be re-enacted in 1995, is once again on the table for discussion.

FREQUENTLY USED ACRONYMS

ADA (Americans with Disability Act) Federal law requiring accessibility and equal services for persons with physical disabilities.

AFDC (Aid to Families with Dependent Children) Certain state and federal categorical programs are granted according to the district's number of children from low-income families receiving AFDC (replaced in 1997 by the federal program TANF, Temporary Assistance for Needy Families).

COLA (Cost-of-Living Adjustment) Funding increases based on various indices of inflation.

EIA (Economic Impact Aid) State categorical aid for districts with concentrations of children who are bilingual, transient, or from low-income families.

ELD (English Language Development) A program to place students in English classes according to their level of proficiency instead of their grade.

FEP (Fully English Proficient) Students who have satisfactorily learned English.

GATE (Gifted and Talented Education) Categorical program to provide services to children identified as exceptionally able or talented.

IEP (Individual Education Plan) A written educational plan tailored to the needs of a student with disabilities. An IEP, agreed to by a parent or guardian, is required for each Special Education student.

IDEA (Individuals with Disabilities Education Act) Federal law (originally PL 94-142) establishing and specifying requirements for Special Education programs.

LEP (Limited English Proficient) Students who need to learn English (includes non-English speaking as well as limited-English speaking).

ROC/ROP (Regional Occupational Centers/Regional Occupational Programs) Training for entry-level jobs, job-related counseling, and upgrading of skills for students ages 16 to 18.

SIP (School Improvement Program) Money granted by the state for schools to carry out a plan developed by a school site council.

SELPA (Special Education Local Planning Areas) The administration of Special Education services, ranging from a single school district to regional or county-wide groups.

STRS (State Teachers Retirement System) A retirement fund to which all certificated employees, school districts, and the state must contribute. (STRS is not considered a categorical program.)

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[redacted] staff for this report include:

[redacted],
Executive Director

[redacted],
Research Director

[redacted],
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- *Special Education Funding: The Other School Finance System*
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Clarifying Complex Education Issues

Dilemmas of Deregulation or Decentralization

Any categorical funding changes, almost all of which carry strong political implications, could revolutionize the delivery of education (and the use of funds) in California schools.

The core issue is what kinds of decisions should be made at which level — centrally or locally — and what kind of accountability the state and federal governments need or require. Inevitably, deregulation and decentralization would result in different kinds of educational programs in districts, perhaps among schools, that could complicate the tough task of providing equal opportunities for all students.

The historical reasons for earmarking aid for particular purposes are to:

- remedy inequities among students
- ensure that all students are served, including the dispossessed and hardest to educate
- prevent misuse of the system, inadvertent or intentional, and
- support current priorities, particularly with extra funds.

Categorical aid can assure that money is spent for an intended purpose. But it cannot assure the "best" or even an appropriate use, guarantee quality, or secure an improved outcome for students.

Someone has to decide how to spend the education budget — the state Legislature and Governor, the U.S. Congress, school district governing boards and administration, the large employee unions, school site councils, or some combination thereof. Each option has its advantages and disadvantages as well as the opportunity (or lack of it) for public discussion, input and, of course, pressure.

What is the optimal combination of state safeguards and local options, of state standards and local flexibility? These dilemmas are particularly visible in the debate about categorical aid, who gets to decide how resources are used, and for whom.

The context of education finance and governance — to say nothing of the demographic profile of the state — has changed rapidly since categorical funding started its continuing growth in the 1960s. The time is right for a new look at the philosophy behind the proliferation of earmarked funds and of priority-setting at the state level.

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EdSource Report
OCTOBER 1995

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This report compares California's public education system with that of other states. It takes a look at the similarities and differences in the children served, school funding, teachers, and school improvement efforts. Such factual comparisons can help guide decision making about individual schools and the entire K-12 system.

INSIDE THIS ISSUE

TAXES, INCOME, AND SPENDING FOR EDUCATION 2
RESOURCES TO SCHOOLS FOR STUDENTS 5
CALIFORNIA'S STUDENTS 8
STUDENT PERFORMANCE 10
TEACHER PREPARATION, SALARIES, AND EMPLOYMENT RIGHTS 12
EDUCATION REFORM 14
CONCLUDING THOUGHTS 16

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No other state compares to California. Whether that statement comes from someone who loves the Golden State, or someone who doesn't, it contains more than a grain of truth. In terms of sheer size and the diversity of its population, California certainly stands alone.

Yet comparisons have value, even for California. They provide a broader perspective on the way things are and some inspiration for how they could be. When it comes to public education, comparisons with other states can also provide benchmarks by which to measure this state's efforts on behalf of its schoolchildren.

About this report

This report compares California with other states and nations along a variety of different dimensions. These include:

- where the money for schools comes from and how much support it provides
- who the students are and how they are doing in school
- teacher preparation, compensation, and employment conditions
- how different states are approaching education reform

Some caveats about making comparisons

Many of the comparisons in this report are based on hard, quantifiable data. Others reflect trends about which statistics aren't available or applicable. Throughout, information sources are provided and attempts have been made to give some perspective on how scientific or unscientific the information is.

As you read this report keep in mind that:

- Not all states prepare their data in an identical way.
- Comparison data can sometimes be misleading when the systems being compared are operated very differently.
- In some cases, the data included is several years old. Also the data may vary in date from section to section. Examples are 1990 U.S. Census data, compared to 1993-94 National Education Association (NEA) or National Center for Education Statistics (NCES) data. A careful look at dates is recommended.

EdSource has made every attempt to ensure that the data presented here is the most accurate and current available. As always we encourage readers to do their own critical thinking about the information presented.

HOW DOES PUBLIC EDUCATION IN CALIFORNIA COMPARE TO OTHER STATES?

Ranking	
1st	Number of students
8th	High school graduation rate
9th	Teacher salaries
12th	Per capita personal income
18th	State and local tax revenues
25th	SAT scores
40th	Per pupil expenditures
43rd	Spending on K-12 education per $1000 personal income
48th	Students per computer
50th	Students per teacher
50th	Students per principal
50th	Students per guidance counselor
50th	Students per librarian

TAXES, INCOME, AND SPENDING FOR EDUCATION

Any state-to-state comparison of school funding needs to look at two related issues. The first is how much is available for and allocated to schools. The second is what mechanisms a state uses to determine the level of funding and its distribution.

Californians' income levels, though still high, have decreased relative to the rest of the nation.

While California remains among the nation's wealthiest states in terms of personal income per capita, the years of recession since 1989 have definitely taken a toll. In 1993, per capita personal income in California was $21,884. This was 5% above the U.S. average of $20,781. From 1989 to 1993, per capita personal income increased by 11.5% in the state, but it increased 17.5% nationally. As a result, California's ranking fell from 9th to 12th.

The only state with slower growth was New Hampshire at 11.0%. Meanwhile, per capita personal income increased by 30.9% in the District of Columbia and by 29.2% in Wyoming.

The 1990 census shows Californians are relatively well educated.

U.S. census data from 1990 shows that California's adults are generally better educated than Americans as a whole. The state ranks 10th in the percent of its population that holds a bachelor's degree or higher. Data for the percentage of the population with at least a high school diploma places California just above the national average.

Figure 1 shows that educational attainment varies significantly by ethnic group, both in the U.S. and in California.

California's tax revenues are very close to the U.S. average.

For every $1,000 of personal income earned by Californians in 1991-92, state and local governments received $109 in tax revenues. Nationally, the average was $108. This places California 18th highest in tax revenues as a portion of personal income, tied with New Jersey, Utah, and Montana.

The state with the highest tax revenues, at $171 per $1,000 of personal income, is Alaska. The lowest, all at $87, are Missouri, Tennessee, and Alabama.

Relative to its capacity, California's spending on education is among the nation's lowest.

Comparing K-12 expenditures per $1,000 personal income in 1991-92, California ranks 43rd in the U.S., along with Virginia, Florida, Hawaii, and Massachusetts. All five states expend $35 on K-12 education for every $1,000 of personal income.

This statistic measures a state's effort to finance education against its capacity to fund it. It takes into consideration that while expenditures per student might be similar, they can reflect very different levels of effort. For example: a state with a very large proportion of children and low personal income would need to make a substantially greater effort than a state with a small proportion of children and high personal income.

California has an average proportion of children in its population. At the same time, the state has a relatively high level of income, but that income has grown more slowly in recent years than in the U.S. as a whole.

As Figure 2 shows, California's effort on behalf of schools is quite low, although its tax revenues are about average.

International comparisons place California's effort to finance education well below average.

Data supplied by the National Center for Education Statistics (NCES) in 1988 provides an international perspective. It looks at per-student expenditures for preprimary through secondary education as a percentage of per capita Gross Domestic or State Product (GDP). This takes into

Figure 1.
Educational Attainment by Ethnic Group in California and the U.S. 1990 Census

	All	White	Black	American Indian/Eskimo	Asian	Hispanic	Other
High School Graduate or higher (Percent)							
California	76.2	81.1	75.6	71.4	77.2	45.0	39.2
U.S.	75.2	77.9	63.1	65.5	77.5	49.8	43.4
Bachelor's Degree or higher (Percent)							
California	23.4	25.4	14.8	11.1	34.1	7.1	5.0
U.S.	20.3	21.5	11.4	9.3	36.6	9.2	6.0

Data U.S. Department of Commerce — EdSource 10/95

account the proportion of children in the population and the state or nation's taxpayers' ability to pay for the education budget. (The nations included are all industrialized and part of the OECD, Organization for Economic Cooperation and Development.)

California ranked 45th of the 50 states (58th of the 69 states and nations), at about 16% of per capita GDP allocated to education. The U.S. average is 19.6%.

The range, internationally and in the U.S., is as follows:

The top contributors

- Switzerland — 30%,
- Luxembourg, Denmark, and Finland — more than 25%,
- In the U.S., Rhode Island, Vermont, Oregon, and Montana — all between 23% and 25%,

The bottom contributors

- Spain and Japan — approximately 13%,
- In the U.S., Hawaii, Louisiana and Nevada — between 14% and 15%.

California ranks below other states only in expenditures for education, highways, and interest on debt.

A look at how California spends its money reveals clear priorities. As Figure 3 shows, the state ranks above the U.S. average in its per capita expenditures on most public services.

Per-pupil expenditures in California remain well below the national average.

In 1993-94 California spent an average of $4,640 per student. This was less than the U.S. average of $5,730 — and less than half of New Jersey's $10,112. In that year California dropped from 38th to 40th in per-pupil expenditure. In the U.S. as a whole, the increase over the previous year was an average of $180 per pupil, but in California it was only $20.

Despite increases in the total budget for K-12 education in 1994-95 and 1995-96, the per-pupil amounts are not expected to be enough to raise California's ranking appreciably. The actual per-pupil expenditures for each school year cannot be calculated until the end of the year, when official attendance figures are known.

Figure 4 compares school expenditures in California and nine other major industrial states over a 19-year period. It shows that expenditures per pupil simply stopped growing here, while they continued to rise elsewhere, especially in the eastern states.

Figure 2.
Tax Revenues & Education Expenditures, 1991-92, Per $1,000 of Personal Income for Ten Largest States

	State & Local Tax Revenues		Expenditures for K-12 Ed	
	Amount	Rank	Amount	Rank
U.S. Average	$108		$ 41	
California	**$109**	**18**	**35**	**43**
Florida	99	37	35	43
Illinois	100	35	33	50
Massachusetts	107	24	35	43
Michigan	110	15	49	7
New Jersey	109	18	46	11
New York	148	3	46	11
Ohio	103	30	44	18
Pennsylvania	107	24	42	26
Texas	101	31	46	11

Data: National Education Association and National Center for Education Statistics — EdSource 10/95

In contrast to many states, the bulk of school funding in California is controlled at the state level.

School finance systems — which determine the sources of money for schools and the methods for distributing it — differ dramatically from state to state.

All states receive some revenues from the federal government, but the proportion is relatively small and varies widely. As Figure 5 shows, California is just above the national average in the amount it receives from the fed-

Figure 3.
Per Capita Expenditures for Various Functions, 1991-92

Per capita expenditures	CA Rank	CA Average	U.S. Average
California Above U.S. Average:			
State and local government	12	$4,282	$3,812
Public welfare	13	665	606
Capital outlay	16	553	528
Health and hospitals	9	431	345
Higher education	21	336	303
Police protection	5	194	135
Fire protection	7	80	56
California Below U.S. Average:			
Public schools	**24**	**882**	**897**
Interest on debt	29	235	254
Highways	49	205	261

Data: NEA *Rankings of the States 1994* — EdSource 2/95

eral government. The variation from state to state reflects two factors: the number of students who qualify for federal categorical programs and the total revenues from state and local sources.

The share of revenues from state and local sources shows no clear pattern. Hawaii, which has a single school district for the entire state, is essentially a state-funded system (90.3% state, 1.8% local). By contrast, New Hampshire is largely locally funded (88.8%), with just 8.1% of revenues from the state and 3.1% from the federal government.

To further complicate comparisons, many states are revising their funding formulas based on court decisions and in some cases a desire for greater state control over schools.

Figure 5.
Percentage of Revenues from Federal, State and Local Sources, 1993-94

	Federal Revenues	State Revenues	Local Revenues
U.S. Average	7.2%	45.8%	47.0%
California	8.8%	54.8%	36.4%
Range			
High	17.7% (Mississippi)		
Low	3.1% (New Hampshire)		

Data: National Education Association EdSource 10/95

Court decisions are requiring more and more states to equalize statewide funding levels and address issues of educational quality.

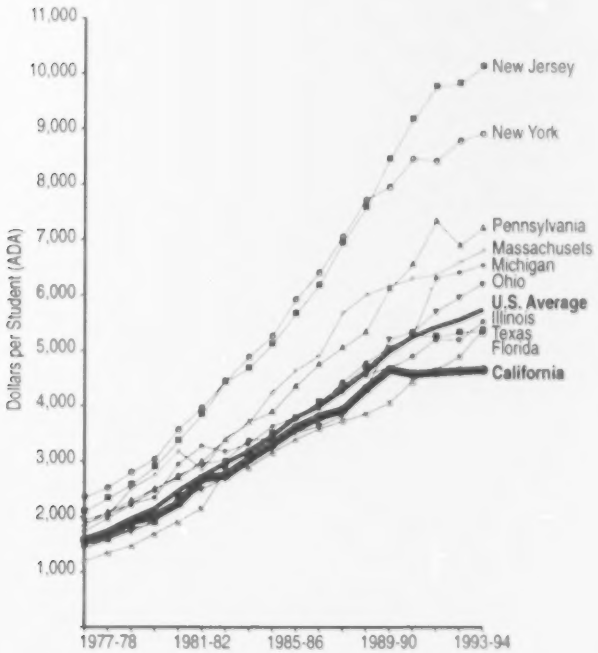
California's court-mandated equalization of school funding, *Serrano* v. *Priest*, only addressed the question of equitable school funding. Many experts say that the scope of the decision was limited by the language in the state constitution. The ruling, coupled with Proposition 13's lid on property taxes in 1978, led to a state-controlled school finance system. Today in California, many discussions of school finance reform revolve around the possibilities for returning some control over funding to local districts.

By contrast, elsewhere in the nation the momentum is toward greater state control not only over school funding, but also over educational quality. Since 1989, more than half of all states have been involved in legal challenges to their public education funding systems, most of which were based on local property taxes. In these cases, plaintiffs have often raised questions of adequacy as well as equity.

The courts, in turn, have become more proactive. Instead of just handing the problem back to education officials and legislators to fix, many are presenting specific recommendations. More and more, the courts place the state responsibility to provide public education over the right of local communities to control it.

In some states, such as New Jersey, Texas, and Michigan, the result has been dramatic changes in how public education is funded and controlled.

Figure 4.
Expenditures per Student (ADA) for California and Other Industrialized States over Two Decades



Data: NEA Rankings of the States, 1994 EdSource 10/95

RESOURCES TO SCHOOLS FOR STUDENTS

Where the money goes within the public schools is a perennial question. Comparisons from state to state present contrasts in terms of efficiency and priorities. For California, such comparisons also raise inescapable questions about adequacy and what constitutes a minimum level of acceptable funding.

California has more students enrolled per teacher than any other state.

Recent research and the conventional wisdom of both teachers and parents say that students learn better in smaller classes, particularly at the elementary level.

The California Department of Education (CDE) reports that the average class size in California in 1993-94 was 29.5 students in elementary schools and 29.6 in secondary schools. This is excluding special education and vocational education.

By and large, decisions about class size are controlled at the local level, largely through collective bargaining agreements between school boards and teachers' unions. In difficult financial times, districts often increase class size in order to pay for other things, such as salary increases and special programs.

Accurate state-to-state class size comparisons are not available, but the student-teacher ratio is closely related. This ratio counts all teachers, including specialists and those with very small classes (such as some Special Education classes), and thus is smaller than the actual number of children in a typical classroom.

Contrary to what occurred in most other states, in California the number of students per teacher increased from 1983 to 1993. As a result, the state now has the largest ratio of students per teacher in the country. The state's 24.1 students per teacher compares to a U.S. average of 17.3 students, and almost doubles the 12.5 number reported by the District of Columbia.

From 1983 to 1993, California school districts did reduce class sizes temporarily, but then increased them again as a result of the budgetary pressures since 1990. Meanwhile, in the same ten-year period, 43 states reduced the number of students per teacher, and six of them did so by three or more students.

Figure 6 shows how this trend over the last decade has separated California from the national average.

Figure 6.
California's Student Teacher Ratio Compared to the U.S. Average over Time

From 1969 to 1994, in the U.S. as a whole, the average ratio of students to teachers decreased steadily. By contrast, the ratio in California began diverging from the national trend in 1978, when Proposition 13 passed. It has risen steadily since, and in 1994 was back at the 1969 ratio.

Data: National Education Association

EdSource 10/95

California's ratio of students to all staff members is also one of the largest in the U.S.

It is not only in the pupil-teacher ratio that California lags behind other states, according to statistics from 1992. As Figure 7 shows, the state ranks 50th in the ratio of students to total staff, with a 12.2 to 1 ratio. The U.S. average is 9.3 students per staff member. The state comes close to the national average in support staff categories at both the school and district levels.

The employee categories in which California is most deficient are those that require the strongest professional backgrounds, such as teaching.

- The state has substantially more students per administrator than the national average at both the district (ranking 46th) and the school (ranking 50th) levels.
- California has an astounding 5,441 students per librarian, compared to the U.S. average of 852.
- The situation is similar with guidance counselors, with California having nearly double the number of students per counselor as the U.S. average.

California spends less than other states on general administration and transportation, but other spending patterns are similar.

According to data from NCES, California spends most of its education dollars very much the way other states do. The exceptions are few but notable. As Figure 8 shows, school districts in this state spend a far smaller proportion of per-pupil expenditure on general administration, such as district office administrators. Conversely, they spend more on school administration such as school principals. California schools also spend less on transportation and more on support services.

As can be seen in the chart, the total dollars spent per student are substantially less than the U.S. average, making the dollar amounts per category smaller even though the percentages are similar.

California is behind other states in technology and the infrastructure for adding it.

Despite the state's status as a leader in high technology industries, California is behind most of the nation in providing technology for schools. An April 1995 report from the United States General Accounting Office summarizing surveys from school districts all over the country provided some basis for comparison.

With a ratio of 21.1 students per computer, California ranked 48th in the U.S., trailed only by Nevada (21.4 students), Rhode Island (21.6), and Ohio (25.3). Wyoming, on the other hand, reported 7.0 students per computer.

Furthermore, California schools lack the basic infrastructure needed to add technology to classrooms. Of the schools surveyed in the state, 69.1% reported insufficient wiring and 55.6% reported insufficient power. Hawaii was the only state where schools reported a worse situation in both areas. Corporate and community initiatives are underway in Cali-

Figure 7.
Ratios of Staff to Students by Position — 1992

	U.S. Average	California	Rank	US Average/CA (U.S. Avg = 100%)
TOTAL STAFF	1 to 9	1 to 12	50	75%
PROFESSIONAL STAFF				
District Officials & Administrators	1 to 968	1 to 2,450	46	40%
School Principals & Assistant Principals	1 to 350	1 to 517	50	67%
Teachers	1 to 17	1 to 24	50	71%
Guidance Counselors	1 to 527	1 to 1,041	50	51%
Librarians	1 to 852	1 to 5,441	51	16%
SUPPORT STAFF				
Administrative Support	1 to 341	1 to 255	10	134%
Instructional Coordination	1 to 1,470	1 to 1,258	18	117%
School & Library Support Staff	1 to 220	1 to 216	26	102%
Instructional Aides	1 to 100	1 to 94	18	106%
Student Services Staff	1 to 454	1 to 567	31	80%
Other Support Staff	1 to 43	1 to 67	42	64%

Data: National Center for Education Statistics

EdSource 10/95

fornia to attempt to address this deficiency.

Schools in California look slightly better when it comes to having library/media centers. The state ranks 41st, with 19.4% of schools reporting a lack of such centers. At the extremes, Georgia is well equipped with only 0.2% reporting problems while the percentage lacking library/media centers is 31.1% in Alaska.

California requires fewer school days for students than most other states.

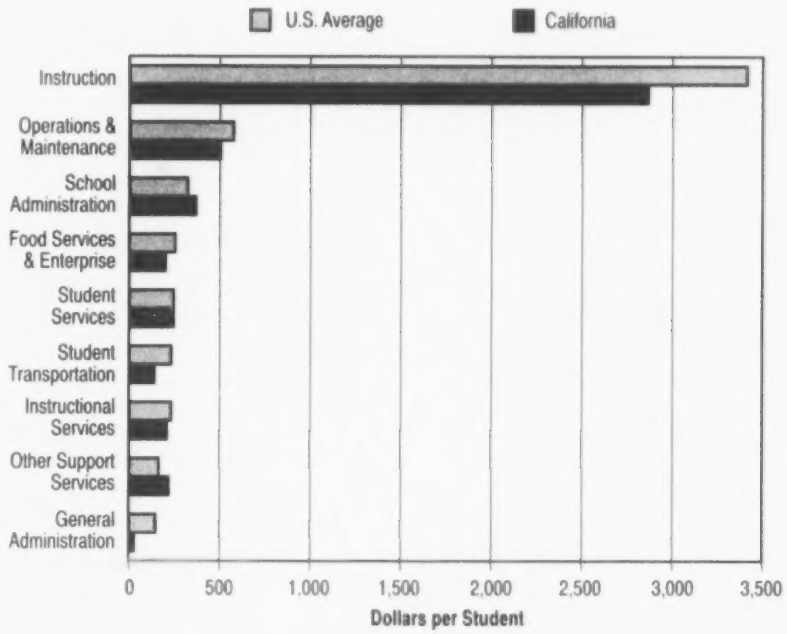
Many states, including California, give their local districts some flexibility over precisely how many days per year students must attend school. California schools receive a financial incentive to provide a specific number of instructional minutes annually.

In California, some students attend school for as few as 172 days. Districts receive an incentive for a 180-day year, and can use up to eight of those days for staff development and school improvement programs.

Very few other states allow their days of instruction to go below 175. A 1992 report from the Education Commission of the States listed just six besides California.

The report also mentioned four states which had officially committed to increasing the length of the school year, including Oregon which in 1991 passed legislation to extend the year to 220 days by 2010. The other three states were Minnesota, Alabama, and Kansas. Finding a way to finance a longer school year may present a sizable test of their commitment.

Figure 8.
Expenditures per Student (ADA) by Category in 1992-93



	California $/Student	%	Rank	U.S. Average $/Student	%
Instruction	$ 2,865	59.9	37	$ 3,414	61.0
Student Services (health, attendance, speech)	246	5.1	21	247	4.4
Instructional Services (curriculum development, staff training, libraries, media and computer centers)	209	4.4	24	234	4.2
General Administration *	29	0.6	51	148	2.6
School Administration **	368	7.7	10	323	5.8
Operations & Maintenance	504	10.5	30	576	10.3
Student Transportation	140	2.9	46	234	4.2
Other Support Services	220	4.6	9	165	3.0
Food Services	199	4.2	37	234	4.2
Enterprise Operations	1	0.0	28	20	0.4

* General Administration refers to centralized administration, such as district office.

** School administration refers to principals and other administrative operations provided at school sites.

Data: National Center for Education Statistics EdSource 10/95

CALIFORNIA'S STUDENTS

Any comparison of school systems must include a careful look at who those systems are serving. The public schools in California face a unique challenge in terms of the sheer number of children they serve and what those children are like.

One in eight students in the United States goes to school in California.

While most people know that California's public schools have a larger enrollment than any other state, the magnitude of difference is dramatic. With 5.27 million students in 1993, California's enrollment nearly equaled that of New York, New Jersey, and Pennsylvania combined. Texas ranked second in enrollments with 3.6 million students.

California, with a 1992 total resident population of 30.8 million, is not only the largest state but one of the fastest growing. In the decade from 1982 to 1992, the population grew 24.8%, the fifth highest rate in the U.S.

Meanwhile, California's school-age population was growing even faster, with an increase of 29% from 1983 to 1993. That represents 1.18 million additional schoolchildren — a number that exceeds the total enrollment of the nine smallest states combined. Figure 9 shows the 10 industrial states and their enrollment growths, compared nationally. In the U.S. as a whole, school enrollment has increased just 10%.

Despite this growth trend in recent years, California is currently average in the proportion of its population who are school-age children, with 18.3% between the ages of 5 and 17. Nationally, the range was from a high of 26.4% in Utah to a low of 12.9% in the District of Columbia.

California is expected to continue growing faster than the U.S. as a whole.

California's population growth is expected to continue due to a relatively high birth rate and a large number of immigrants.

Figure 9.
Enrollment, 1993, and Population, 1992, and a Decade of Growth for the Major Industrial States

	Enrollment 1993	Rank	Change 1983-93	Rank	Population 1992 (Millions)	Rank	Change 1982-92	Rank
U. S. Average	43,287,980		9.9%		255,082		10.2%	
California	**5,267,277**	**1**	**28.9**	**5**	**30,867**	**1**	**24.8**	**5**
Florida	2,040,763	4	36.4	3	13,488	4	29.5	4
Illinois	1,893,077	5	2.4	33	11,631	6	1.6	42
Massachusetts	877,726	15	-0.2	45	5,998	13	3.8	33
Michigan	1,612,774	8	-8.5	49	9,437	8	3.6	34
New Jersey	1,151,610	10	0.3	42	7,789	9	4.7	31
New York	2,731,277	3	2.6	31	18,119	2	2.6	38
Ohio	1,807,162	6	-1.1	46	11,016	7	2.1	41
Pennsylvania	1,744,082	7	0.4	41	12,009	5	1.2	44
Texas	3,606,457	2	19.8	8	17,656	3	15.5	13

Data: National Education Association EdSource 10/95

Only two other states (Utah and Alaska) have a higher birth rate. In 1992, California reported births as 2.0% of population, compared to the U.S. average of 1.6%. West Virginia had the lowest percentage of births, at 1.2%.

Immigration plays a significant part in California's population growth. According to an August 1993 *Newsweek* report, the U.S. accepts more legal immigrants than all other industrialized nations combined, and 40 percent of those immigrants come to California. In 1991, that represented 735,732 people. The vast majority, 69%, came from Mexico, with no other country representing more than 4%.

Migration from other states has played a less significant role in California's growth in recent years, partly because of the population which has left the state. The net gain was just 36,000 people in fiscal 1991, compared to 129,000 in 1986.

Multilingual diversity in California exceeds all other states.

The children attending California schools represent greater linguistic and ethnic diversity than in any other state. Some say the state has the most diverse populace in the world, and the child population reflects greater diversity than the population as a whole.

Among California's children five and older, 31.5% spoke a language other than English at home in 1990. This is second only to New Mexico, where the proportion is 35.5%. The U.S. average is 13.8% and 34 states have less than 10%.

California is notable not just for the number of children who are learning English, but for the sheer diversity of languages spoken by the student popu-

lation. Three-fourths of the children served in limited English programs speak Spanish. But Vietnamese, Chinese, Cambodian, and Tagalog (a language used in the Philippines) are also widely spoken. Estimates are that over 80 different languages are used by students attending California schools.

California is one of the few states with a majority of minorities.

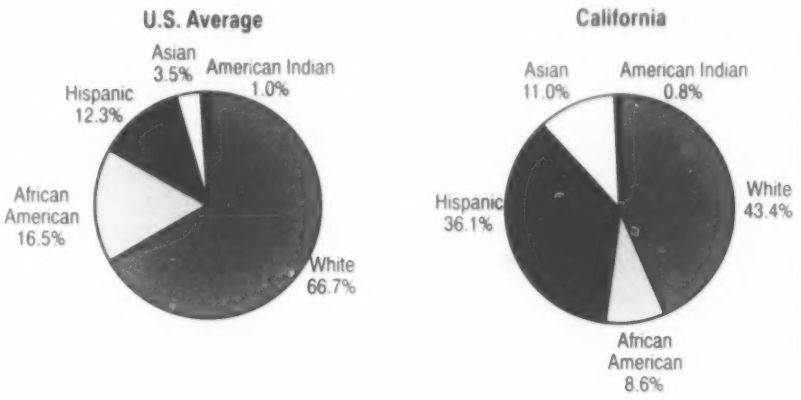
California's school enrollment looks strikingly different from that of other states and the U.S. as a whole.

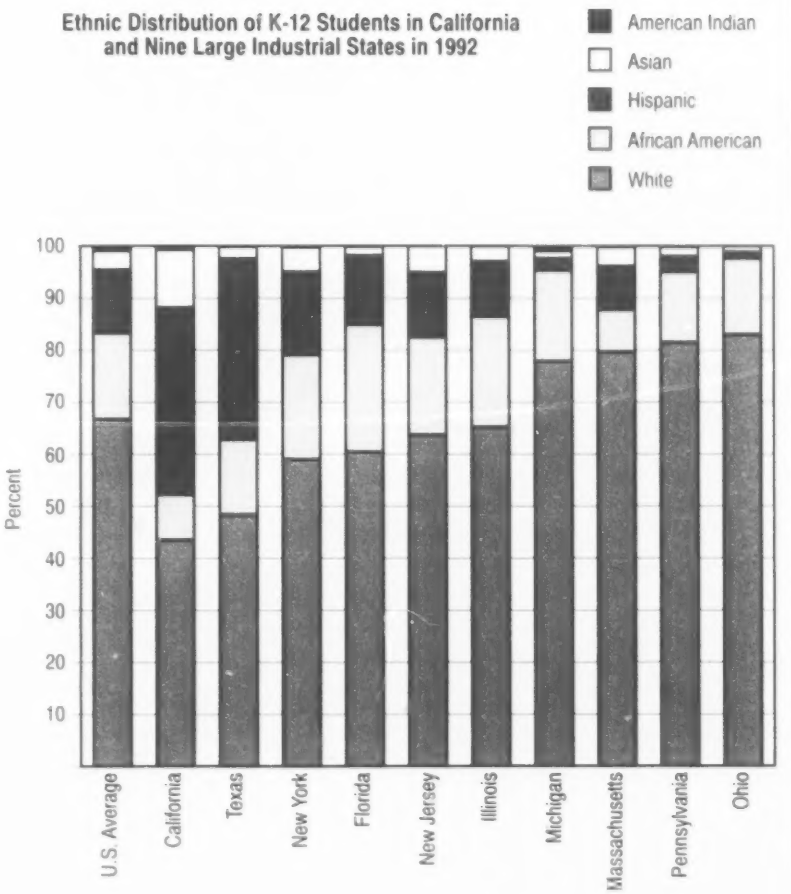
As Figure 10 illustrates, California has a sizable proportion of each major ethnic group. While Hispanics and white students are nearly balanced in numbers and represent about 80% of the population, the remainder is also almost evenly split. The state has the second highest proportion (11%) of Asian/Pacific Islanders in the U.S. while its Black/African American population, at 8.6%, falls below the national average but still represents a sizable segment.

This is in contrast to the few other states which approach or exceed 50% minority population. In Hawaii and New Mexico, Asian/Pacific Islanders and Hispanics respectively make up almost all of the minority populations.

Among the 10 large industrial states, Texas is the only other state with a majority of minority students and its population is less diverse than California's.

Figure 10.
Ethnicity of Students in the U.S. and California





Data: National Center for Education Statistics

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STUDENT PERFORMANCE

How well do California's students perform in comparison to those in other states? That question is difficult to answer with any level of certainty, due to a scarcity of accurate measures of student performance. And while it is true nationally, it is especially problematic within California because of the turmoil over the state's assessment system in recent years. The available statistics provide a limited perspective on how well students perform while they're in school.

California students are close to the national average on the SAT college entrance examinations.

The SAT or Scholastic Assessment Test (called the Scholastic Aptitude Test until 1994) is often used as a measure of student ability. Specifically, it measures how well a student can be expected to perform in a college or university setting. When measuring a state's performance on the test, both scores and participation rates need to be considered.

In California, a higher proportion of students take the SAT than in the U.S. as a whole. In general, these students tend to score slightly higher than the national average on the math segment of the test, and slightly lower on the verbal segment. Figure 11 illustrates participation rates and how well California students have fared on the SAT since 1989-90.

While these results could reflect a weakness in California's curriculum, they more likely reflect the state's substantially higher proportion of English language learners (35% in California versus 17% nationally). It should also be noted that SAT scores consistently rise along with family income levels. In California, 21% of the test takers in 1995 had family incomes of less than $20,000, compared to 15% in the nation as a whole.

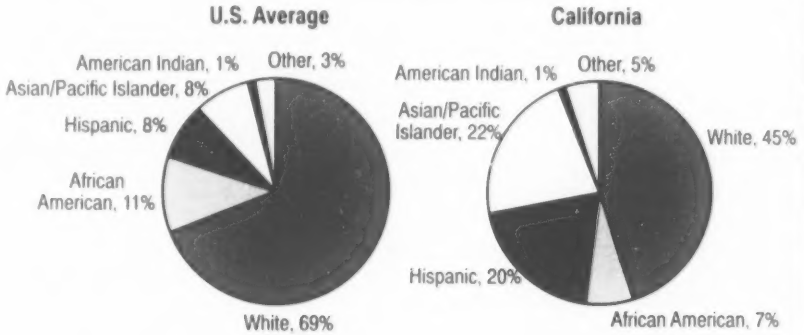
As Figure 11 illustrates, California's SAT participants were also more diverse ethnically than those in the nation as a whole. It is informative to compare these proportions with the overall ethnic distribution reflected on page 9.

A sample of California 4th graders performed poorly on the only national assessment available.

The National Assessment of Education Progress (NAEP) is the only vehicle available which compares the academic performance of school-age children across the country.

Every two years, the NAEP tests a representative sample of 4th, 8th, and 12th graders in the 40 states that choose to participate. National results were available for both reading and math in all age groups, but as of this printing, state-by-state comparisons had only been released for 4th grade reading. It should be noted that sample sizes were 6,030 4th graders in the U.S. as a whole and 2,252 students at 97 schools in California.

Figure 11.
Ethnicity and Performance of U.S. and California Students on the Scholastic Assessment Test (SAT), 1994-95



Performance on SAT Tests, 1994-95

	Percent of Takers		Verbal		Math	
	CA	US	CA	US	CA	US
American Indian/ Alaskan Native	1%	1%	416	403	465	447
Asian/Pacific Islander	22	8	405	418	525	538
African American	7	11	352	356	384	388
Hispanic	20	8	368	380	418	428
White	45	69	453	448	511	498
Other	5	3	436	432	498	486

Data: The College Board

EdSource 10/95

NAEP scores are reported on a scale of 0 to 500 and also by proficiency level: advanced, proficient, basic, and below basic. NAEP cautions that these proficiency levels are new and evolving. They are used, despite some disagreement over their accuracy, in the belief that they can still provide useful information.

On the 4th grade reading test, California's children tied with Louisiana for the lowest average proficiency score, and they scored well below the national average as illustrated in Figure 12.

Nationally, "average reading proficiency at grades 4 and 8 showed no statistically significant changes between 1992 and 1994." The results for grade 12, however, showed performances "significantly lower on the 1994 reading assessment than . . . in 1992 . . . ." This decline was not limited to a specific region or ethnic subgroup. On the other hand, the decline for males (6 points) was substantially larger than the decline for females (3 points).

Showing a dramatic improvement, California ranked eighth in the percentage of high school seniors who graduated in 1992-93.

Across the nation, 92.7% of enrolled high school seniors received diplomas in 1992-93. As Figure 13 shows, California exceeded this rate, with 96.1% of seniors becoming graduates. Moreover, over the prior 10 years, California showed greater improvement than any other state with an increase from 87.5%. In the same time period, only 16 other states improved, and the U.S. average actually dropped by half a percentage point.

Counting the number of high school seniors who graduate is just one way to calculate the drop-out rate, and it is the one that is used by NCES to make this national comparison. It fails to take into account the students who leave school before ever getting to their senior year.

Figure 13.
Percent of Enrolled High School Seniors Who Graduated in 1992-93.

	Graduation Rate	Rank
U.S. Average	92.7%	
California	**96.1**	**8**
Florida	87.8	44
Illinois	97.3	5
Massachusetts	94.1	20
Michigan	95.7	9
New Jersey	99.9	2
New York	95.1	15
Ohio	88.9	41
Pennsylvania	95.3	13
Texas	88.0	43

Data: National Center for Education Statistics EdSource 10/95

Figure 12.
California and National NAEP Average Scores — 4th Grade Reading Proficiency, 1994

Scores are the average for each group, on a scale of 0 to 500 with the "basic" performance level defined as 212 or above, the "proficient" level above 243, and the "advanced" level above 275.

	California		U.S.	
	% of Students	Avg. Score	% of Students	Avg. Score
Total sample		198		213
Male	51	195	51	208
Female	49	201	49	219
White	44	212	68	223
Black	7	184	16	187
Hispanic	33	176	12	190
Asian	8	212	2	231

Data: National Assessment of Educational Progress EdSource 10/95

TEACHER PREPARATION, SALARIES, AND EMPLOYMENT RIGHTS

The classroom is ultimately the place where effective education does or does not occur. Statewide rules for teacher preparation and the protection of employee rights have a limited but important impact on the quality of teaching and teachers. Comparisons of teacher salaries and work year give a perspective on how teachers in various states are treated.

The work year for California teachers is comparable to that in most other states.

In the majority of states, including California, the standard work year for teachers is 180 days long. Many of those with 180 work days, however, call for fewer than the eight staff development days allowed in California.

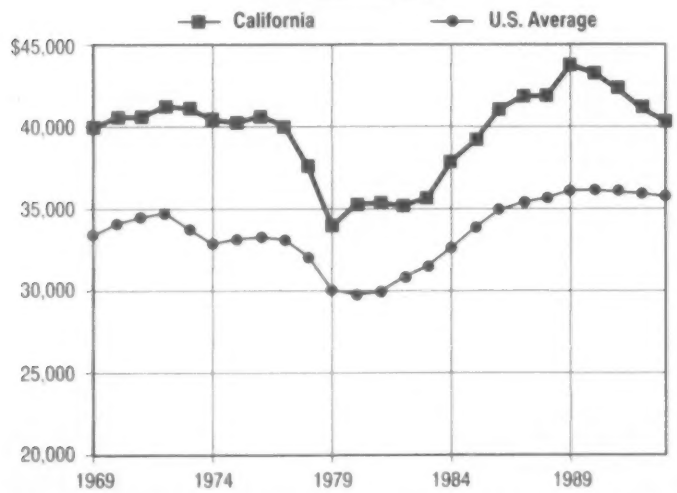
Several other states have a longer teacher work year in order to keep children in school 180 days and still provide time for teacher planning and training. In Florida, for example, teachers are employed for 196 days, with 16 days set aside for time without students. In Georgia, the work year is 190 days. In North Carolina, local boards of education employ their professional staffs for 10 calendar months.

International comparisons show U.S. elementary teachers spend the most time with students.

NCES provides a comparison between the U.S. and other industrialized nations based on the time that teachers spend with children and the number of days school is in session.

The U.S. average of 180 school days per year compares to a low of 165 days in Spain and highs of 225 days in Germany, and up to 240 days in parts of Switzerland.

Figure 14.
California Teacher Salaries, Adjusted for Inflation, Compared to the U.S. Average



Over the last 25 years, average teacher salaries in California (when adjusted for inflation) are almost unchanged while the U.S. average has increased 7%.

Data: National Center for Education Statistics

EdSource 10/95

At the primary school level, U.S. teachers spend more time per week, 30.5 hours, instructing students than those in any other nation. Secondary teachers in the U.S. are instructing students between 21 and 23 hours per week, approximately the same as teachers in England, Scotland, Ireland, and the Netherlands.

To put international comparisons into perspective, it's necessary to understand how different nations run their schools.

Japan, for example, reports 210 to 220 school days per year. The extra instruction takes place on Saturdays, therefore the school year is the same number of weeks as in the U.S.

Primary school classes in Japan average about 30 students, well above the U.S. average. However, teachers spend less time with their students and more time planning and preparing. They are with students only 20 hours per week, with the time spread over the six school days. The students attend six classes per day, but they have more than one teacher. Each teacher teaches about four class periods daily. The pupil-teacher ratio is 21.6, two students larger than the U.S. average.

California's average teacher salaries rank 9th in the U.S., down from 6th five years ago.

Teachers in California, with average salaries of $40,289 in 1993-94, earned considerably more than the U.S. average of $35,723. The highest average salaries are paid in Connecticut with $49,910 and the lowest in South Dakota with $25,059.

From 1989 to 1994, however, California's average teacher salaries failed to keep pace with inflation, or to increase as much as those of other states or the U.S. as a whole. Figure 14 shows that, when adjusted for inflation, average salaries fell for teachers in

California compared to their U.S. counterparts, who managed to stay even with inflation.

Many factors can influence these averages, including the education and experience levels of a state's teaching staff. When enrollments grow, as they have in California as a whole, new teachers with less experience and lower salary levels are hired. This can reduce the state average, even though existing staff receive raises or inflation adjustments, plus rewards for more years of experience.

In Figure 15, NCES data from 1990-91 show that about 40% of California's teachers have less than 10 years experience, and the percentage of teachers at the entry level is over 3% more than the national average.

California's preparation and certification requirements for teachers are extensive.

In a 1994 report, the National Association of State Directors of Teacher Education and Certification compared the requirements for new teachers in all 50 states.

As in most states, the academic requirements for a teaching credential in California include a bachelor's degree with both general education and professional coursework, from a regionally accredited institution. Unlike many places in the U.S., the state leaves the general education requirements to the college's discretion. For professional coursework — the study of teaching and schooling — California and every other state except Alaska mandate specific course requirements in areas such as cultural diversity, teaching strategies, child development, and curriculum alternatives.

Teachers in California must complete their undergraduate degree, pass the CBEST test of basic skills, pass appropriate subject matter exams, and spend a year in a teacher training program, which includes student teaching, to receive a preliminary credential. They then have five years to earn a clear credential by completing additional professional coursework.

All but five states require teaching candidates to pass some sort of test. Like California, most conduct basic skill and appropriate subject matter exams. In six states, teaching candidates must take a spelling test. California and 13 other states require an assessment of teaching performance along with written exams.

California is among 10 states that require only two years for a teacher to gain permanent status.

In California, school districts have two years in which to decide if they will grant a probationary teacher permanent status. Within a two-year period, districts may "non-renew" a probationary teacher without giving any reason for their decision. Much more common is the three-year probationary period in 33 states.

California law is among the most specific on allowable grounds for teacher dismissal.

States vary widely in how they describe why a teacher may be terminated or dismissed. Nine states are very general, with statements like "just cause" in Iowa and "incompetency or misconduct" in New York.

Like California, a few have an extensive list of specific reasons. Only Nevada, North Carolina, and Texas have more items.

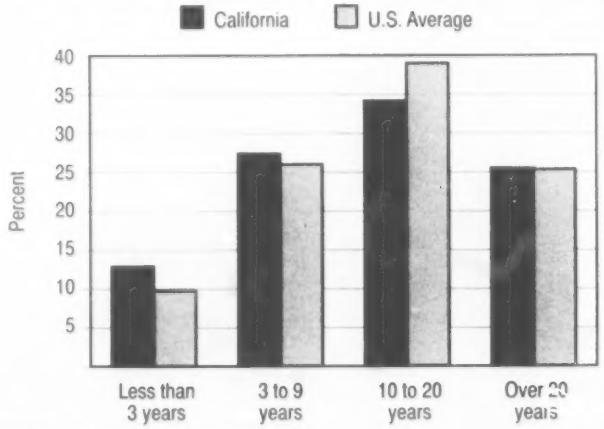
In 1995 the California legislature revised the list, replacing incompetency with "unsatisfactory performance."

California's collective bargaining laws are typical.

California's teachers and most other school employees, have the right to be represented by a union and to engage in collective bargaining regarding conditions of employment and compensation. In case of disputes, they may strike as long as public health or safety are not threatened.

All of this makes California fairly typical. A total of 34 states permit exclusive union representation, 31 give collective bargaining privileges, and 12 penalize employees for going on strike.

Figure 15.
Years of Teaching Experience for California and U.S. Teachers



Data: National Center for Education Statistics

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EDUCATION REFORM

"Systemic reform" is education jargon for fundamentally changing the way schools do business. At the school-site level, this can mean changing class configurations, schedules, curriculum focus, instructional methods, community participation, and the allocation of resources.

At the state level, the issue is how government uses programs, incentives, and mandates to force or encourage change at the local level. A key focus in many states is the development of standards for what happens in the classroom, finding ways to measure or assess performance, and holding students, schools, and states accountable for the results.

While the national Goals 2000 project has become somewhat controversial, it does provides a rare comparison of states' progress on these reform issues and so is used here. Continued funding for Goals 2000 is in question both at the federal and state level.

Every state but one is developing content standards.

Content standards specify what skills and knowledge students should be taught.

Every state except Iowa has either put into place or is developing some sort of academic standards for students. Nationwide, state governments appear to have a strong commitment to standards-based education reform. In California, the content standards are found in the curriculum frameworks created under the leadership of the California Department of Education.

While 49 states say they have developed standards, the quality and specificity of those standards vary widely, according to survey results published by the American Federation of Teachers (AFT) in the fall of 1995.

California is one of 13 states with content standards that meet AFT criteria for academic focus and specificity.

AFT has set up criteria for judging the value of the standards from each state. Their basic assumptions were that the standards need to be set at the state level, need to be based in the core academic subjects, and need to be specific about knowledge as well as skills, with grade or age level benchmarks.

Their conclusion was that only 13 states, including California, had standards that fit those criteria and were specific enough to provide a foundation for education reform and valid student assessment. In addition, the AFT survey placed California "among the states with the clearest, most specific standards."

The development of valid performance standards is a continuing process in California and nationally.

Performance standards establish goals for how well students can use what they have learned.

In 1995, 39 states reported that they have some kind of performance standards in place or under development. The states vary widely in terms of the breadth of subject areas covered by the standards, with California's list of subject areas among the most extensive. As in California, where work continues on the refinement and clear description of widely-accepted performance standards, this process appears to be fluid and on-going throughout the U.S.

With a statewide assessment system in place, California is among 31 states committed to connecting student testing to their standards.

To quote the AFT survey, "The good news is that a majority of states (31) recognize the importance of clearly connecting their assessments with the standards. The bad news is that over half of those states (18) will be basing their assessments on standards that aren't strong enough."

The authorization of a new statewide student assessment system in California in October 1995 included a mandate to link it to statewide standards. It also called for a new citizen commission to review the state's existing standards and develop new ones.

Another consideration is what types of measures are used to determine how well students are doing. Most experts recommend that a state use a variety of assessment methods in order to get an accurate and complete picture of student performance. The methods include:

- norm-referenced tests (students compared to each other to determine performance)
- criterion-referenced tests (students compared to an objective performance standard)
- performance assessments (students perform a specified task)
- writing samples
- portfolio assessments (evaluation of on-going student work).

New Mexico is the only state that requires all five types of assessment. California formerly required portfolios, but has dropped that in its new assessment system.

A new proposal for a "certificate of achievement" graduation requirement would make California one of only seven states that hold students accountable to standards.

State Superintendent of Public Instruction Delaine Eastin has announced plans to introduce legislation in 1996 to create a California "Golden State Achievement Certificate" to replace the high school diploma. Governor Wilson made a similar recommendation last year. Such a measure would be consistent with a strongly-held belief among many education leaders that unless students have incentives and consequences for meeting higher standards those standards can not be achieved.

The AFT survey found that only seven states now hold students accountable to state standards as a condition for high school completion. (They did not consider minimum competency tests as adequate.) Of those states, only Georgia and South Carolina had standards that met AFT's criteria for specificity and academic focus.

No state, California included, has done a thorough job of assessing the rigor of its standards against those of other countries.

The phrase "world class standards" is often used to describe goals for U.S. education, but the AFT survey found that only seven states had systematically compared their standards against those of other countries. Those states were Delaware, Illinois, Louisiana, Maryland, Massachusetts, Ohio, and Utah.

California is behind other states in reorganizing its state education agency to support school reform.

The two-year absence of an elected state superintendent of public instruction in California appears to have put the state behind most others in changing the way the state agency operates to better support local school reform efforts.

Under the guidelines outlined in Goals 2000, 41 states reported having reorganized, with the primary objectives being to improve technical support to districts and develop a "service" orientation at the state agency. These objectives are similar in spirit to reorganization efforts that began in California in the summer of 1995, under Eastin's leadership.

California earns mixed reviews for its progress toward several of the national education goals.

Goals 2000 calls for redefining the role of the teacher in school governance and decision making, as well as changing teacher licensing and performance standards. From the reports submitted by chief state school officials, it is difficult to identify where real change is occurring. A total of 36 states, California among them, have some policies in place regarding the professional preparation of teachers, and seven more have something under development. The quality of these policies and the depth of real change are not readily apparent. California, for example, reports that its efforts in redefining the role of the teacher include the participation of teachers in school site councils and in the development and evaluation of the now-defunct CLAS assessments.

California is among 28 states with a state technology plan in place. Nine more are developing plans.

A spot comparison of the resources being allocated to implementing technology helps flesh out the picture. For 1995-96, California doubled its state allocation to technology, increasing it from $13 million to $37 million to serve the needs of about 6 million students. This amounts to about $6.50 per child. In 1994, technology allocations in other states varied widely but often exceeded California's. Examples include:

- Arizona — $1.60 per student,
- North Carolina — $33 per student,
- New York — $22 per student,
- Tennessee — $87 per student.

Along with most states, California has not adopted or considered any "Opportunity to Learn" standards, a controversial and relatively new addition to the Goals 2000 agenda. Proponents say the standards can provide local school districts with objective measures of their program adequacy. They are in place in just seven states, but interest appears to be increasing, as six more states began development between 1994 and 1995.

School to work issues are getting attention in other states, but little in California.

In a 1992 report, the Education Commission of the States credited five states with developing comprehensive strategies to implement school-to-work transition policies and relating their initiatives to K-12 improvement and reform. Those states were Oregon, Wisconsin, Arkansas, Indiana, and Michigan.

The report also highlighted a variety of strategies being used in some states. The strategies fall into seven broad categories outlined in the sidebar.

California was among the first states to legalize charter schools and it still has one of the strongest laws.

The jury is still out on the effectiveness of charter schools but they are receiving national attention as a way to improve education.

Not all charter laws are equally effective. A recent study rated California as having six out of the seven "stronger" components contained in laws nationwide. Other states with strong laws included Arizona, Michigan, Delaware, New Hampshire, Massachusetts, and Texas. As of the summer of 1995, 19 states had passed a charter law.

Public school choice legislation has passed in California and 13 other states.

Many education reformers believe market pressures and consumer choice can help push schools to improve. One result has been the school voucher movement, which would allow public education funds to follow the child to either a public or private school. A limited voucher program is in place in Wisconsin but no statewide measures have been approved.

A more moderate approach is to open enrollments both within and between public school districts. As of December 1994, a total of 35 states had considered public school choice legislation, and 15 had passed some type of statewide measure (Massachusetts repealed its law in 1993). California's law requires school districts to offer choice within their boundaries and allows for greater choice between districts.

CONCLUDING THOUGHTS

From the comparisons presented in this report, some conclusions about public education in California become clear.

Most other states fund their schools better than California. Moreover, California teachers and administrators both work with more students and California students have access to dramatically fewer professional support staff.

To add to this challenge, the state's children are more diverse ethnically and linguistically than those in other states, and the student population continues to grow. The few available statistics on student performance are troubling but far from comprehensive.

Our teachers are prepared and paid reasonably well compared to other states. They also enjoy employment protections, such as collective bargaining rights, that are as comprehensive as those found in any other state.

California's progress toward school reform has been sporadic. Many consider the state to be at the forefront in curriculum standards. In some policy areas, such as school-to-work, California is behind. Many reforms currently under discussion in California have already been put in place elsewhere.

The quality of education in California's public schools will help determine the future of 12.5% of the children in the United States. Californians need to understand the ways in which our state is investing in education to fulfill that responsibility and where we're falling short.

A knowledge of the facts and national trends should be part of the ongoing discussion — at the local, state, and national levels — about how California schools are doing, how they can improve, and what the public is willing to do to help.

SCHOOL-TO-WORK STRATEGIES USED IN U.S.

Guaranteed diplomas to assure employers that graduates have attained minimal proficiencies. (Colorado, West Virginia, Oregon, Indiana, and Los Angeles Unified School District.)

Apprenticeships. (Oregon, Wisconsin, Arkansas, Pennsylvania, and the Council of Great Lakes Governors.)

State/Business partnerships. (Massachusetts, New York, Illinois, and Maryland.)

Planning councils to work on strengthening the connections between work and school. (Vermont, Minnesota, and New York.)

Tech Prep programs thoroughly integrate high school and career preparation. (Indiana, Maryland, Michigan, North Carolina, Rhode Island, and Washington.)

Alternative learning programs help students no longer in high school prepare for work. (Oregon, New Jersey, Kentucky, Minnesota, and New York.)

Vocational and academic integration models have been developed in various localities.

EdSource Staff

Trish Williams, *Executive Director*
Mary Perry, *Deputy Director and Project Writer*
Barbara Miller, *Research Director*
Penny Howell, *Program Consultant*
Rae Ann Ewbank, *Finance Manager*
Peg Austin, *Office Manager*
Trudy Taliaferro, *Community Liaison*
Anne McCarten-Gibbs, *Policy Analyst*
Joan Mullen, *Editorial Assistant*
Kari Becker, *Research Intern*

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Clarifying Complex Education Issues

A Glossary of School Finance Terms

FEBRUARY, 1996

Clarifying Complex Education Issues

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AB 1200	Legislation passed in 1991 which defined a system of fiscal accountability for school districts and county offices of education to prevent bankruptcy. The law requires districts to do multi-year financial projections, identify sources of funding for substantial cost increases such as employee raises, and make public the cost implications of such increases before approving employee contracts.
Account Code	A number assigned to sources of revenues or purposes of expenditures. School districts and county offices will begin phasing in a new account code structure in 1996.
Adult Education	Classes for students 18 years or older offered by local high schools. State law requires that certain courses, including citizenship and English, be offered at no charge. Other classes may carry a fee. Adult Education revenues and expenditures must be tracked separately from a school district's general fund.
Americans with Disabilities Act (ADA)	Federal law requiring accessibility and equal services for persons with disabilities.
Apportionments	Federal or state taxes distributed to school districts or other governmental units according to certain formulas.
Appropriations	Funds set aside or budgeted by the state or local school districts for a specific time period and specific purpose.
Assessed Value	The value of land, homes or businesses set by the county assessor for property tax purposes. Assessed value is either the appraised value of any newly built or purchased property or, for continuously owned property, the value on March 1, 1975, plus annual increases. These increases, tied to the California Consumer Price Index, may not exceed 2% annually. (See Proposition 13.)
Average Daily Attendance (ADA)	The number of students present or excused for absence on each school day throughout the year, divided by the total number of school days in the school year. ADA approximates 95% of the average enrollment statewide. A school district's revenue limit income is based on its ADA.
Basic Aid	The minimum state grant of $120 per K-12 pupil guaranteed by the California Constitution. The amount is included in a school district's revenue limit. In the few instances when a district's property tax income exceeds its revenue limit, the district (called a Basic Aid School District) keeps the excess, and the state still pays the $120 basic aid.
Benefit Assessment Districts	See Maintenance Assessment Districts.
Bilingual Education	Programs for students with limited proficiency in English. Some federal and state categorical funds are targeted for bilingual education. School districts develop their own programs within specific parameters.
Block Grant	A lump sum allocation of special purpose funds intended to give local jurisdictions greater discretion over expenditures.

Bonded Indebtedness An obligation incurred by the sale of bonds for acquisition of school facilities or other capital expenditures. Districts may levy a local property tax to repay debts which were approved by two-thirds of the voters.

Budget Act The legislative vehicle for the state's budget appropriations. The state Constitution requires that it be passed by a two-thirds vote of each house and sent to the Governor by June 15 each year. The Governor may reduce or delete, but not increase, individual items.

Building Fund Accounting term used to designate school district funds which a district received through bonds, or the sale or rental of property. The use of these funds is restricted.

Capital Outlay Expenditure for major renovation or reconstruction, new buildings, or certain new equipment.

Categorical Aid Funds from the state or federal government granted to qualifying school districts for children with special needs, such as disabilities; for special programs, such as the School Improvement Program; or for special purposes, such as Economic Impact Aid or transportation. Expenditure of most categorical aid is restricted to its particular purpose. The funds are granted to districts in addition to their revenue limits.

CBEDs California Basic Education Data System. Collected from each school in the fall, CBEDSs reports contain statistical information about schools, teachers, and students.

CBEST The California Basic Education Skills Test. Required of anyone seeking certification as a teacher, the test measures proficiency in reading, writing, and mathematics.

Certificated Employees Employees who are required by the state to hold teaching credentials, including full-time, part-time, substitute, or temporary teachers and most administrators.

Chapter 1, 2 See ECIA.

Class Size Penalties Financial penalties on school districts with classes that exceed the maximum sizes stipulated in the law.

Classified Employees School employees who are not required to hold teaching credentials, such as secretaries, custodians, bus drivers, instructional aides, and some management personnel.

COLA See Cost-of-Living Adjustment.

Collective Bargaining A process for establishing a contract between a school district and its employee organizations. SB 160 (1975) defined the manner and scope of negotiations, and mandated a state regulatory board. (See PERB.)

Consolidation The combining of two or more elementary or high school districts with adjoining borders to form a single district. (See Unification and Unionization.)

Consumer Price Index (CPI)	A measure of the cost of living compiled by the U.S. Bureau of Labor Statistics, often used as a measure of inflation. It is calculated regularly for the United States, California, and some regions and cities within California. The CPI is one of several indices of economic change.
Cost-of-Living Adjustment (COLA)	An increase in funding for revenue limits or categorical programs based on various indices of inflation. In some years the full statutory amount is not appropriated.
CPI	See Consumer Price Index.
Criteria and Standards	Minimum fiscal standards, established by the state, for monitoring district and county solvency and accountability.
CTA* v. *Gould	Lawsuit challenging schools' obligation to repay loans or "prepayments" given to schools in the early 1990s when the state allocation exceeded the minimum funding level guaranteed by Proposition 98. Tentative settlement was reached in 1995 but must be approved by the court.
Deferred Maintenance	Major repairs of buildings and equipment which have been postponed by school districts. Some matching state funds are available to districts which establish a deferred maintenance program to proceed with these repairs.
Deficit Factor	The percentage by which an expected allocation is reduced. Deficit factors are often applied to revenue limits and categorical programs by the state when the appropriation is insufficient based on the funding formulas specified by law.
Developer Fees	A charge per square foot on residential and commercial construction. Developer fees are levied by school districts, with the maximum amount set by the state. Proceeds are used for building or renovating schools and for portable classrooms.
Direct Services	Services, including business, attendance, health, guidance, library, and supervision of instruction (K-8 only), performed without cost by county offices of education for small districts (elementary, high school, and unified districts with less than 901, 301, and 1,501 ADA respectively).
ECIA	The federal Educational Consolidation and Improvement Act (1981). Title I (or Chapter 1) of the Act is for educationally disadvantaged children. Title II (or Chapter 2) consists of multiple programs consolidated into block grants to states and local districts.
Economic Impact Aid (EIA)	State categorical aid for districts with concentrations of children who are bilingual, transient, or from low-income families.
Education Code	The body of law which regulates education in California. Additional regulations affecting education are contained in the California Administrative Code, Titles 5 and 8, the Government Code, and general statutes.
Education Fund/Foundation	A tax-exempt organization established to raise funds and receive gifts and grants in support of a school district or individual school.

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Encroachment	The expenditure of school districts' general purpose funds for special purpose programs, such as Special Education or transportation. Encroachment occurs in most districts which provide services for children with disabilities. Encroachment is also caused by deficit factors or local decisions to allocate general purpose funds to special purpose programs.
Equalization Aid	Funds allocated by the Legislature to raise districts with lower revenue limits toward the statewide average.
FCMAT	Financial Crisis Management and Accountability Team, which monitors and assists financially troubled districts and county offices.
Foundation Amount	The tax revenues which count toward a school district's Gann limit. The district's other tax revenues are included in the state's limit.
Gann Spending Limit	A ceiling, or limit, on the tax dollars that the state, cities, counties, school districts, and special districts may appropriate. An initiative passed in November 1979 added appropriations limits to the California Constitution. Gann limits are adjusted annually for the change in the California Consumer Price Index or per capita personal income, whichever is smaller, and for change in the state's population. (See Proceeds of Taxes.)
GATE	Gifted and Talented Education program, to provide educational services to children who are identified as exceptionally able or talented.
General Fund	Accounting term used by the state and school districts to differentiate general revenues and expenditures from those earmarked for special purposes.
General Obligation Bonds	Bonds for capital outlay, financed through taxes. Bond elections in a school district must be approved by a two-thirds vote, state measures by a majority vote.
Healthy Start	A state grant program in which schools work with community organizations to provide children and families with access to health and human services, often at school sites.
High Expenditure Districts	Districts with revenue limits considerably above the state average for the type of district. Those more than 5% above do not receive their full revenue limit for additional pupils above their 1982-83 ADA.
Impact Aid	See PL 81-874.
Implicit Price Deflator	A measure of inflation used to compare expenditures over a period of time. The Implicit Price Deflator for State and Local Government Purchases of Goods and Services is used to calculate increases to revenue limits.
Indirect Cost Rate	Rate used to charge a portion of the general expenses of operating a district to a specific program such as food service or adult education.

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Individual Education Plan (IEP)	A written agreement between a school district and parents or guardians of a child with disabilities tailoring an educational program to the child's needs. An IEP is required for Special Education students.
Individuals with Disabilities Education Act (IDEA)	Federal law establishing and specifying requirements for Special Education programs.
Inflation Factor	See Cost-of-Living Adjustment.
Interim Reports	Reports to the state, required twice annually, about ongoing ability of school districts to meet their financial obligations.
J-200, J-380	Financial and program cost accounting reports submitted by districts and county offices to the California Department of Education. The information is used to monitor the fiscal condition of school districts.
Joint Powers Agreements (JPAs)	An agreement among school districts to share services or responsibilities. A joint powers board made up of representatives of the districts governs the JPA.
Joint School Districts	School districts with boundaries which cross county lines.
Lottery	The gambling games approved by voters in November 1984. The minimum of 34% of lottery revenues distributed to public schools and colleges must be used for "education of pupils." Lottery income adds about 2% to K-12 education funding annually.
Maintenance Assessment Districts	Fees charged to property owners and used to provide a service of benefit to all fee payers, such as the maintenance of public parks and recreation areas. School district governing boards may impose the fee without putting it on the ballot for local voters' approval.
Mandated Costs	School district expenditures which occur as a result of federal or state law, court decisions, administrative regulations, or initiative measures.
Master Plan for Special Education (MPSE)	California categorical program for the education of all children with disabilities, enacted in 1980 and modified frequently since then. (See Special Education and IDEA.)
Mega-item	The combination of over 40 state-funded categorical programs into one line item in the state budget.
Mello-Roos	A community facilities district (usually within a school district) established by a two-thirds vote to issue bonds and levy local taxes for school construction.
Mentor Teacher	A specially selected teacher who receives a stipend to work with new and experienced teachers on curriculum and instruction. The state provides some funding for this program.

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Migrant Education	Special funds for districts with students who are children of migrant workers.
Miller-Unruh	A categorical program which supports reading specialists.
Minimum Guarantee	An amount of money that must be appropriated annually to K-14 education according to Proposition 98.
Necessary Small Schools	Elementary schools with less than 101 ADA or high schools with less than 301 ADA that are separately funded if the student population is sparse enough.
Parcel Tax	A special tax assessed on each parcel (non *ad valorem*) rather than being based on property value. Usually for a specific purpose tied to a district's educational program, parcel taxes must be approved by a two-thirds vote.
PERB	Public Employment Relations Board composed of five persons appointed by the Governor. PERB regulates collective bargaining between school districts and employee organizations.
PERS	Public Employees' Retirement System. State law requires that classified employees, their district, and the state contribute to this retirement fund.
PL 81-874	The federal Impact Aid program which provides funds to districts with children whose families live or work on federal property, such as military bases.
PL 94-142	Federal law which mandates a "free and appropriate" education for all children with disabilities. (See IDEA.)
Proceeds of Taxes	Revenues from taxes, licensing fees, user charges, and user fees (in excess of expenses). If the amount exceeds the state's Gann limit, half must be rebated to taxpayers and half to K-14 schools. (See Gann Spending Limit.)
Proposition 13	An initiative amendment to the California Constitution passed in June 1978. Tax rates on secured property are restricted to no more than 1% of "full cash value." Proposition 13 also defined assessed value and required a two-thirds vote to change existing or levy other new taxes. (See Assessed Value.)
Propositions 98 and 111	Voter approved initiatives that amended the Constitution to guarantee a minimum amount of funding for K-14 education each year. The propositions included formulas for calculating the guarantee under different economic conditions. Proposition 98 also mandated School Accountability Report Cards.
Pupil Weighting	A method of distributing money according to the individual characteristics of each pupil. Weights or ratios are assigned for categories of pupil need or special costs; funds flow to districts according to their total number of pupil weights.
Reserves	Funds set aside in a school district budget to provide for future expenditures, to offset future losses, for working capital, or for other purposes.

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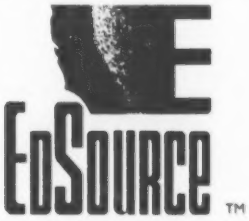
Revenue Limit	The specific amount of state and local property taxes a school district may receive per pupil (ADA) for its general education program. Annual increases are specified in the law, but the Legislature must appropriate adequate money (see Deficit Factor). Categorical aid is granted in addition to revenue limit income. (See ADA, COLA, Basic Aid.)
ROC/ROP	Regional Occupational Centers/Regional Occupational Programs. Established by a school district, group of districts, or county offices of education, the centers provide training for entry-level jobs, job-related counseling, and upgrading of skills for youths ages 16 to 18.
School Accountability Report Card (SARC)	An annual report on specified aspects of a school's operation. Required as part of Proposition 98.
School Improvement Program (SIP)	Money granted by the state to qualifying K-12 schools to carry out a plan developed by the school site council for improvement of the school's program.
School Site Council	Parents, students, teachers, and other staff selected by their peers to prepare a school improvement plan and to assist in seeing that the planned activities are carried out and evaluated.
Scope of Bargaining	The range of subjects negotiated between school districts and employee organizations during the collective bargaining process. In California, scope includes matters relating to wages, hours, and working conditions; PERB is responsible for interpreting disputes about scope.
Secured Roll	The part of a school district's assessed value derived from stationary property, i.e., land and buildings. (See Unsecured Roll.)
Seniority	A statutory system for protecting the job security of employees with the longest periods of service in a district. With few exceptions, the seniority list is used to determine which employees will be the first to be laid off or rehired.
Serrano* v. *Priest	The California Supreme Court decision which declared the system of financing schools unconstitutional because it violated the Equal Protection clause of the state's Constitution. The decision forced the Legislature to reduce (but not eliminate) disparities among school district revenue limits.
Shortfall	An insufficient allocation of money, requiring an additional appropriation or resulting in a deficit.
Special Education	Programs to identify and meet the educational needs of children with emotional, learning, or physical disabilities. PL 94-142 requires that all children with disabilities be provided a free and appropriate education from infancy until 21 years of age.
Special Education Local Planning Areas (SELPA)	Regional group for purposes of administering Special Education services effectively and efficiently. Districts are organized into SELPAs; some are countywide, some are a single large district or part of a district, and some combine several smaller districts.
Special Reserve	Money set aside by a school district for special purposes or projects, such as capital outlay.

Split Roll	A system for taxing business and industrial property at a different rate from residential property.
State Allocations Board (SAB)	A regulatory agency that controls most state-aided capital outlay and deferred maintenance projects and distributes funds for them.
STRS	State Teachers' Retirement System. State law requires all certificated employees, school districts, and the state to contribute to this retirement fund.
Subventions	Provision of assistance or financial support, usually from higher governmental units to local governments or school districts, for example, to compensate for loss of funds due to tax exemptions.
Sunsetting	The termination of the regulations (but not necessarily the funding) for a categorical program. A schedule for the Legislature to consider the sunset of most state programs is in current law.
Tenure	A system of due process and employment guarantee for teachers. After serving a two-year probation period, teachers are assured continued employment in the school district unless very carefully defined procedures for dismissal or layoff are successfully followed.
Test 1, 2, or 3	Tests, based on the level of state revenues, which are used to determine the financial allocation to K-12 schools and community colleges. (See Proposition 98.)
Title I and II	See ECIA
Tuition Tax Credits	A reduction in state or federal income tax to offset a specified amount of money for private education tuition.
Unification	Joining together of all or part of an elementary school district (K-8) and high school district (9-12) to form a new unified school district (K-12) with a single governing board.
Unified School District	A school district serving students from kindergarten through 12th grade.
Unionization	Joining together of two or more elementary or high school districts to form a single elementary or high school district.
Unsecured Roll	That portion of assessed property that is movable, such as boats, planes, etc.
Vouchers	Coupons issued by a state to individual children for admission to school and redeemed by those schools for cash. A voucher system could include public as well as private school students.
Waivers	Permission from the State Board of Education to set aside the requirements of an Education Code provision upon the request of a school district.
Year-round Schools	A schedule of classes throughout the calendar year to fully utilize school facilities. Students attend about three-quarters of the time, in various schedules determined by the district.

Clarifying Complex Education Issues



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